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CETA'S VULNERABILITY TO FRAUD AND ABUSE

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HEARINGS

BEFORE A

SUBCOMMITTEE OF THE COMMITTEE ON GOVERNMENT OPERATIONS HOUSE OF REPRESENTATIVES

NINETY-SIXTH CONGRESS

SECOND SESSION

MAY 20, 21, AND JULY 23, 1980

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CETA'S VULNERABILITY TO FRAUD AND ABUSE

TUESDAY, MAY 20, 1980

HOUSE OF REPRESENTATIVES,
MANPOWER AND HOUSING SUBCOMMITTEE
OF THE COMMITTEE ON GOVERNMENT OPERATIONS,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:05 a.m., in room 2203, Rayburn House Office Building, Hon. Cardiss Collins (chairwoman of the subcommittee) presiding.

Present: Representatives Cardiss Collins, Wayne Grisham, M. Caldwell Butler, and Olympia J. Snowe.

Also present: Joseph C. Luman, staff director; Richard Grawey, counsel; Sharon Smith, clerk; and Stephen Blackistone, minority professional staff, Committee on Government Operations.

Mrs. COLLINS. Good morning. The Manpower and Housing Subcommittee of the Committee on Government Operations will come to order.

As we all know, gainful employment is often the key to breaking the cycle of poverty within the family and within the community. The major Government effort in this regard is the Comprehensive Employment and Training Act. CETA programs reach into almost every city, town, and village in the country and can offer the promise of a brighter future for those they aid. The nationwide reach of the CETA programs, necessary to insure that eligible citizens have access to them, also poses a tremendous management challenge. Most of the billions that go into the CETA system are spent by subgrantees who are awarded contracts by prime sponsors. There are over 470 prime sponsors in the country and an estimate 30,000 to 50,000 subgrantees. The fact that we are not certain of how many subgrantees exist should give us an appreciation of the problem of monitoring their spending of this money.

As most newspaper readers recognize, CETA funds are not always wisely spent. The subcommittee is concerned that the system for managing this program be as good as possible, so that the money reaches the ultimate beneficiaries and scandal is minimized. In this time of budget cutting, CETA programs, like other Government efforts, cannot afford to be portrayed as wasteful, inefficient, and continually subject to abuse. The General Accounting Office, as part of a broader review of the vulnerability of Federal programs, has assessed CETA programs to determine their weaknesses. We have asked the GAO to report to us on what they have found.

Before GAO testifies, however, we thought it would be useful to hear from one of the many subgrantees in the CETA system. We have selected a local grantee with good credentials in training and

placing women in nontraditional jobs—a task that is not particularly easy to accomplish. We believe that the testimony of Wider Opportunities for Women should place in perspective the problems that we expect to hear about and also demonstrate that compliance with good rules of management, fiscal accounting, and internal controls is possible without denigrating the effectiveness of the CETA program. The witnesses before us today should give us an understanding of how an effective subgrantee operates, as well as the weaknesses in the CETA system itself. Tomorrow we will call the Department of Labor to discuss what is being done to correct management weaknesses in the system.

This subcommittee conducted an investigation of the CETA program some time ago, and the committee issued a report last November entitled, "Administration of the Comprehensive Employment and Training Act." This past Thursday we received the Labor Department's response. This response, although unjustifiably late, did exhibit an attitude of willingness to correct the problems. The Department reported on several new initiatives that it has undertaken and agreed that more must be done to insure that those spending CETA funds are held accountable for them.

Our initial witnesses will be representatives from a District of Columbia CETA subcontractor, Wider Opportunities for Women. On behalf of the subcommittee, I welcome you. You may begin your testimony. You may identify the four witnesses.

STATEMENT OF JOY JONES, INFORMATION SPECIALIST, WIDER OPPORTUNITIES FOR WOMEN; ACCOMPANIED BY CAROLYN TAPSCOTT, COORDINATOR OF COUNSELING SERVICES; AND BETH YINGLING, COORDINATOR OF ADMINISTRATIVE SERVICES

Ms. JONES. Thank you, Madam Chairperson.

Madam Chairperson and members of the subcommittee, thank you for this opportunity to testify on behalf of Wider Opportunities for Women. I am Joy Jones, information and outreach specialist, representing WOW's nontraditional work programs. With me today to answer your questions are Carolyn Tapscott, coordinator of counseling services, and Beth Yingling, coordinator of administrative services. We are speaking today about effective CETA training with subgrantee accountability to the prime sponsor.

Wider Opportunities for Women—also known as WOW—is a Washington-based, nonprofit women's employment service and advocacy organization which has offered career counseling, training, and placement service to women for the past 15 years. Since 1967, WOW has run several programs funded by the D.C. Department of Employment Services—formerly D.C. Department of Labor—under the Manpower Development and Training Act, the Employment Services Act, and, now, the Comprehensive Employment and Training Act—CETA.

As a CETA subgrantee, WOW's Nontraditional Work Programs currently train and place District of Columbia disadvantaged women in skilled occupations that traditionally have been closed to women—electromechanics, auto mechanics, sheet metal work, laborer's work, painting, plumbing, carpentry, and electricity. WOW's job placement proves that these programs are effective.

Eighty-three percent of our graduates secure unsubsidized jobs in the private sector.

Women who were previously unemployed, recipients of public assistance or underemployed in low-skill-level jobs become communications technicians, electronics technicians, apprentice carpenters, meter testers, shop mechanics, and similar jobs. They work for companies such as A.T. & T., Amtrak, Paktron, Pepco, Tektronics, Truland, George Hyman Construction Co., Turner Construction, and others. Average starting salaries range from $4 an hour to $6 an hour, compared to the $3 an hour which is the average wage trainees earned in previous jobs. Additionally, these jobs are career-track positions, offering advancement opportunities and fringe benefits.

Many people wonder if our training programs have women who are considered the cream-of-the-crop of the CETA population. Our population reflects typical CETA populations.

I would like to use as an example one recent trainee who graduated last summer. I will refer to her as Jane Doe. Previous to joining WOW, her work experience had been as a cashier in a store and as a waitress in a restaurant. She has been receiving public assistance for the last 5 to 8 years, I believe, and had three children who were dependent on her. She decided to apply for CETA training as a result of a dinner conversation she had with her children. Her son, who was 12 years old, and her oldest, said: "Mommy, in a little while when you retire, I will be able to take care of you."

The comment struck her because as a public assistance recipient, there was no way possible for her to retire. That also made her aware of the fact that when her son did, indeed, become an adult, her money for public assistance would soon be terminated. She would need some way to support herself. She has no high school experience. She is a black woman which further limits her accessibility to good jobs in the private sector. She went to CETA to get the help she needed in order to become a productive citizen.

To give you an overall picture of some of the trainees in general, I will repeat some of our statistics. The women in our program are structurally unemployed, with limited skills and education. Twenty-eight percent have no high school diploma or GED. Ninety-seven percent were previously unemployed and 3 percent were underemployed. All of the women have incomes at the poverty level and are classified as economically disadvantaged. One-third of them receive some form of public assistance and more than half are heads of households. Ninety percent are black women, and as I mentioned earlier, that is the group that has been historically denied well-paid employment.

Today I would like to say that Jane Doe is a very successful member of the work force. She took a job in September with Xerox Corp. as a disassembler-mechanic. She currently earns within 80 cents in 1 week of what she earned in a month on public assistance. She is very pleased with her new job. She is very productive in her new career and shows every indication of working out and staying with the company for a long time.

I would like to explain why WOW succeeds. This is due to three things that we have identified: accountability, the involvement of

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private industry, and the support systems that are within our program.

First, I would like to talk about the accountability. WOW practices careful recordkeeping and sound accounting in the operation of the organization. All financial controls specified by the AICPA are followed by the accountant who works under the directions of a CPA. WOW's supporting systems and records—including a financial policy statement—are available for inspection at any time. WOW's payroll records are kept on a computer which breaks down the cost categories according to job function. Funds from each CETA contract are kept in a separate bank account and are segregated from the other funds of the organization.

As a CETA subgrantee, WOW filed monthly participant progress reports, monthly progress reports, and a monthly invoice to D.C. DES, the CETA prime sponsor. D.C. DES also receives notices of participation—one time only—requests for allowances, CETA status change report, and CETA participation extension requests. At the close of each intake period, we submit a memorandum noting the number of prospective participants referred, the number accepted, and the number rejected and reasons for rejection.

The second important thing is the industry participation. We have a lot of support from the private sector. These companies include A.T. & T., C. & P., IBM, and others. They provide us with technical assistance, and provide us with advice in planning the curriculum and telling us exactly what it is that employers need from people entering the work force. Not only do they provide us with this technical assistance and advice, but they actually implement some of this advice to the program. One way is by giving us the necessary equipment, materials, tools, and books to run the program. This, in turn, makes the training much more geared to what industry needs and also saves us, as the subgrantee, money in providing the necessary services to the students.

Second, they aid us by supplying members of industry to act as instructors within the training program. At Pitney Bowes they have a man who comes over and teaches mechanics. He brings Pitney Bowes machines and teaches the trainees how to operate the machines, how to repair them, and how to troubleshoot them. A.T. & T. also participates in a similar fashion by lending a communications manager to run an electrical lab. IBM has just finished up a course in electrical typewriter repair.

Third is the support systems that we have built into our training program. We train women for nontraditional jobs. We are training people who have not been very successful at approaching the employment marketplace before. Not only do we have to give them the actual technical knowledge to do the job, but they have to learn how to find a job and learn how to maintain the job after they find it. Our program teaches them these things through two areas. One is the job development workshops and the counseling sessions. The counseling helps trainees become work ready by setting goals, both long-term and interim goals. There is self-assessment of finding out where your strengths lie—not only your mechancial or electrical ability, but also those personal and interpersonal skills that are necessary to keep a job. The counseling also does a lot of worklife planning, trying to arrange for child-care

services, trying to make sure that your family is supportive of your new entry into the career place, and what to do if they are. It is how to handle these kinds of personal problems.

In the training area, under skills acquisitions, we maintain that the training program is always responsive to industry's needs. For example, in our math classes, we teach the math course so that it is very skills specific. Only the math necessary to perform the job well is taught so that the trainee is able to master just those skills that are necessary to perform the job well.

I would like to reemphasize that these things have proven effective. Again, our placement rate has been 83 percent and 6 months after initial placement, we find that 80 percent of the trainees have kept their original jobs, or have moved on to other jobs within the field through promotions or changes. But they are always within the field.

Finally, I would like to mention some of the problems we have as a CETA subgrantee due to certain structural constraints within the CETA system. CETA subgrantees, particularly small community based organizations, are restricted by unrealistic ceilings on administrative costs, 1-year funding cycles and the restriction on followup of CETA clients beyond the 2 weeks immediately following placement. In the District of Columbia, subgrantee administrative costs are limited to 15 percent of the total program costs. Accountability and efficient management of CETA programs require administrative staff to keep financial records, complete the CETA forms and paperwork, maintain personnel records on both the staff members and the trainees, and do monthly invoices and reports for the prime sponsor. However, the CETA regulations limit the number of people you can hire to the administrative staff, regardless of what the needs of the particular project are, or how complex the nature of the training is. Therefore, CETA should be willing to pay additional for administrative costs in order for the subgrantees to properly account for the moneys and to implement strong systems of accountability.

A second problem is the problem in multiyear funding and delay in awarding of the grant. WOW's CETA grants are awarded on a 12-month basis, but multiyear funding would have decided advantages. A 2- to 3-year funding cycle would permit subgrantees to devote more time to program management and would help the prime sponsor to do long-term observation and evaluation. Very often the award of the contract is made long after the scheduled date, which requires that you must scrimp and save to try to pay the people who are already on your staff. It makes followup of any trainees who have been placed in previous programs difficult. Another problem is the need to borrow money at high interest to continue the program while you wait the funds for the next program. Then when it is time to repay the money, you receive the grant, but the grant does not cover the interest rate that you have paid the bank for the loan of the money. This is an additional monetary burden on the subgrantee.

Third, followup costs are another problem that CETA subgrantees have. I am sure everybody here is interested in knowing whether or not the CETA program just trains somebody to get a job and hold it for a week or two, or whether they prepared somebody to

get a job that they can maintain for a good length of time. Ho
er, under current regulations we are only funded to do a 2-
followup. It is difficult to find out what the long-term effect
the training program without the necessary staff or money t
the followup. The followup is important because it establishes
ongoing relationship between CETA operators and employer
problems arise on the job, sometimes a staff member from
training program can intercede to resolve the problem. Also,
back from supervisors and workers provide information that ca
used to improve the operation of subsequent training cycles.
without providing funds to pay for this followup, CETA dimini
the overall effectiveness of its training programs.

I would like to make myself available for any questions you
have.

Mrs. COLLINS. Thank you very much.

Without objection, your prepared statement, in its entirety,
be inserted in the record.

I understand you have one of the better CETA programs,
only in this area, but throughout the country.

I was very much interested in your statement that you als
to provide some kind of guidance for people who are in ne
child services. How do you go about doing that?

Ms. TAPSCOTT. The prime sponsor in the District has
worked out one of the better systems, we feel. They con
through the United Planning Organization here to provide
care for CETA-eligible participants. We complete the nece
paperwork, refer them to the United Planning Organization.
is the organization funded to provide the child care servic
works very well.

If the participant's child is placed in a situation where she
not feel comfortable, all she needs to do is to come back and
with us about that. We get her in touch with the appro
person there. Then changes are made to secure a change.

Mrs. COLLINS. You mentioned in your testimony that you
people in some very interesting work settings, such as in the
ing trades. Do you have any kind of comparative data of w
costs you to train a person to work in the building trad
opposed to other kinds of employment?

Ms. JONES. As opposed to a nontechnical job, or as compa
other technically related positions that we train for?

Mrs. COLLINS. Other technically related positions for whic
train.

Ms. YINGLING. Our costs are higher for the building trad
struction. That is because we have a very labor-intensive pr
We have a ratio of instructors to participants of about one
We are subcontracted with building trades unions. They ar
union wages.

There is also the high cost of equipment and tools in
programs. It is very important for the women to be supplie
the necessary tools to go into the plumbing, electrical, and
try trade. The funding picks up that cost as well.

Mrs. COLLINS. In that particular category, your costs wo
much more higher than the other categories, would they n
Jones, I am really impressed with your record of 83 percen

is just phenomenal. I am glad to know there is a program such as yours that is doing so well.

To what do you attribute your good placement record? Is it because of the fine cooperation you have with IBM and others that you have mentioned? When you went to them originally was there an understanding that when you train a person, there was going to be an opening for such a person?

Is that the kind of relationship you have? Or how does it work?

Ms. JONES. None of the industries who are cosponsors guarantee a position for any trainee. They are willing to help, but they are under no obligation to employ someone once the program is over.

But I do think the connection with industry has made a big difference. Even when a particular firm is not able or for whatever reason cannot hire a particular person, they often know what their colleagues or competitors are doing and will say: "Well, company A, B, or C is not employing anyone at the moment, but you might want to think about company X, Y, or Z."

Second, because industry knows what is needed in the workplace, they can tell us specifically what to teach in the program so when the women go out to look for employment, they have things that industry wants anyway.

Mrs. COLLINS. How long does it take you to train a woman to be, let us say, an automobile mechanic?

Ms. JONES. Currently our training program in auto mechanics is 11 weeks long. This does not train you to be a competent experienced auto mechanic. Instead, it gives you the skills to approach an employer for an entry-level job.

Mrs. COLLINS. Obviously the receptivity of women going into these new fields is pretty good. Otherwise your percentage of placement would not be so high.

Do you find that has changed and that acceptance of women in new fields is getting better? Or am I just hoping?

Ms. JONES. That is one of those questions that I will have to tell you yes and no. Industry and unions are often working under affirmative action goals and timetables and things that probably spur their interest a lot more than it would be without those kinds of goals to work under.

So that helps it. But at the same time we have to knock on doors and do some legwork.

Mrs. COLLINS. Thank you very much.

Mr. Grisham?

Mr. GRISHAM. Thank you.

One of CETA's goals is to reach the hard-core unemployed. What percentage of your people do you consider to be hard-core unemployed?

Ms. JONES. All of them.

Ms. TAPSCOTT. All of them.

Ms. YINGLING. All of them, in order to be eligible for the program.

Ms. TAPSCOTT. Most of them have no viable skills that they can actually approach an employer in the marketplace today. So, when we talk about structurally unemployed, it is not as though they have had jobs seasonally; it is that they have not had the kinds of skills. I would say all of our participants are hardcore.

Mrs. COLLINS. Mr. Butler?

Mr. BUTLER. Thank you.

I, too, want to congratulate you on your success. But I want to be satisfied with one thing.

To what extent do you attribute your placement success to the opportunity of employers to meet their affirmative action goals? Is this a factor in your being able to place these people? Do you think if you had men and were training them that you would have as good a record?

Ms. JONES. I would say so. I think, again, it is not deniable that the fact that employers do have goals and timetables to meet and that enhances our ability to place women.

But again because the industry can tell us specifically what is needed and what kind of employment opportunities are available, we are able to supply them specifically with what they ask for, particularly in electronic-related careers.

There is a shortage of qualified workers to perform the jobs in the electronics field. That is something you are probably aware of on an informal basis; that is, how electronics are touching greater and greater areas of our lives. People used to wear windup watches and now they wear electronic digital watches. Someone has to repair and service that particular equipment.

Take, for instance, where you would get on a bus and throw your quarter in a box. Now you ride a subway and have to have a magnetic strip on a card to be processed through a machine. Somebody has to install that machine. Somebody has to fix it when it breaks down. Somebody has to service it.

As employment increases, or as technology expands, there are people needed to meet the jobs that accrue with that expansion. Employers need someone to perform those duties. So, I think even if we were training men, too, we would still have a good placement record because we are meeting a real need.

Ms. TAPSCOTT. In addition to what Ms. Jones said, one of the other things that we have as our major goal is that we actually want to produce a person who is a productive employee. Oftentimes what happens, aside from the fact that we have our industry advisory board and our industries do not always hire people, there is no guarantee; what we find is that our trainees, when they are placed in a job, sell the job for us. That employer will come back to us again. Not only is that person able to perform the technical duties required, but he or she is dependable. They are a well-rounded employee. I think that is what accounts for much of our success in that area.

Mr. BUTLER. How do you evaluate the D.C. CETA as a prime sponsor? Can you give me its strengths and weaknesses, from your point of view?

Ms. YINGLING. We can only speak for ourselves. We have a very responsive contracting officer representative who represents the source which administers our funds.

We have a very close relationship with them. They are very conscious of our spending. They monitor us on a regular basis. We are accountable for a great amount of paperwork. That is where my responsibility lies.

We are responsible to them on a monthly basis for invoicing. Invoicing includes breaking down every line item of spending you can imagine. That is monitored closely before it is submitted to the budget office for reimbursement.

We are responsible to them for the reporting of the participants' tracking, when they are employed, when they are terminated, and when they are placed.

So, we do have a great deal of paperwork that we are responsible for to them. But we find that we can do that in our system.

Mr. BUTLER. Have you mastered the system?

Ms. YINGLING. Well, mastered may not be the word. But we are able to. [Laughter.]

We are not perfect. But at least we are able to work at it.

Mr. BUTLER. But here is your chance. Give me some specific examples of improvements that could be made, or paperwork that could be reduced without a loss in management control by the prime sponsor or by the Department.

Would you like to answer that for the record later?

Ms. YINGLING. Perhaps I can do that.

Mr. BUTLER. But you do think, given an opportunity, you could come up with a few.

Ms. YINGLING. Yes.

Mrs. COLLINS. Without objection, so ordered.

[The material follows:]

CETA Overemphasis on Placement

It is important to recognize that the placement of women in nontraditional work is a function of many inter-related factors--good job development, appropriate training, adequate support services, "advocacy", affirmative action, and federal enforcement. The current CETA overemphasis on placement per se is unrealistic, particularly when other parts of the placement system (such as affirmative action and enforcement) have broken down.

Administrative Costs

In the District of Columbia sub-grantee administrative costs are limited to fifteen percent (15%) of total program costs. Accountability and efficient management of CETA programs require administrative staff to keep financial records, complete the myriad CETA forms and paperwork, maintain personnel records on both staff and trainees, and prepare monthly invoices and reports for the prime sponsor. However, CETA regulations limit the size of the administrative staff regardless of the needs or complexity of the project. CETA must be willing to allocate sufficient monies in order for subgrantees to implement strong systems of accountability. It is recommended that CETA allow for higher administrative costs for vendors who can prove that they are effectively and cost-efficiently managing those funds. A ceiling of 20% administrative cost could be set, and those vendors who were proved efficient could be allotted the maximum.

Multi-Year Funding

WOW's CETA contracts are awarded on a twelve-month basis, but multi-year funding would have decided program advantages. A two-to-three year funding cycle would permit sub-grantees to devote more time to program management and would enable the prime sponsor to do long-term observation and evaluation. The often slow process for awarding contracts delays the recruitment of the trainees and the hiring of new staff, and makes the retention of senior staff members difficult. It also creates a severe cash flow problem requiring an organization to borrow money in order to survive while waiting to learn if the program will be funded. Interest on the borrowed money adds another strain to the budget. Even though the need to borrow money and pay the interest is a direct result of the CETA system's failure to provide funds on schedule, the government does not cover this expense.

Vendor Training

WOW has been very fortunate to have the continuity of staff who have experience working with CETA regulations and accountability requirements, so that information can be exchanged between staff who have been or are involved with CETA training. However, accountability requirements of the prime sponsor often change with a new program or fiscal year, and this information cannot be communicated effectively without CETA vendor training. It is recommended that vendor training in monthly invoicing, Management Information System requirements, and trainee allowance payments be conducted on a regular basis throughout the program year, so that new vendors can start up program operations along the guidelines required by CETA. WOW's experience with D.C. Department of Employment Services' vendor training is that it is helpful and informative, yet sometimes not offered in a timely way prior to the start-up dates of new vendors.

Recruitment

One of the difficulties WOW has encountered in operating its CETA programs is that of not receiving a sufficient number of CETA-eligible applicants from the D.C. Employment Service. Because of the nontraditional nature of its training, WOW must be able to select strongly motivated women who are willing to work hard to enter fields traditionally held by men. However, for every opening that WOW has, we are sent an average of only 1.5 applicants. And with Black women as the second largest unemployed population in the District it is clear that there are a sufficient number of CETA eligible women to form a large applicant pool. D.C. Employment Service has been unable to do the career-specific recruitment needed for our programs, so it is recommended that CETA vendors be allowed to do their own recruitment.

Follow-Up Costs

What happens to a client one year, six months, even ninety days after placement? Did the job work out? Did the training adequately prepare the trainee for work? CETA regulations discourage finding out the answers to important questions such as these because vendors are not funded to do follow-up beyond two weeks after program completion. Follow-up is important because it establishes an ongoing relationship between CETA operators and employers. If problems arise on the job, sometimes a staff member from the training program can intercede to resolve the problem. Also, feedback from supervisors and workers provides information that can be used to improve the operation of subsequent training cycles. However, without providing funds to pay for follow-up staff hours, CETA diminishes the overall effectiveness of its training programs.

Mr. BUTLER. Have you had any delays in getting your money
Ms. YINGLING. We do have a problem with that. No. 1, w
operate on cash reimbursement contracts. We invoice the D.
Department of Labor for the costs that we have incurred during
month, within 10 days after that month.

Then we are paid within—supposedly within 15 days of that. It
very rare. So, we are paid for those costs about 25 days after w
report and invoice for them.

There can be a cash flow problem with that. WOW does ha
other programs so we are able to deal with that cash flow proble
But it does make our cash flow tight.

Mr. BUTLER. How do you handle this situation? You pay peop
do you not? Then you invoice the prime sponsor.

Ms. YINGLING. Right. We pay people. We incur costs. We b
equipment. Then we invoice the D.C. Department of Labor
those expenses. Then within a 25-day period, we are reimburse

Mr. BUTLER. If you do not get your money within 25 days, whe
do you turn?

Ms. YINGLING. The situation can become very tight and becau
we operate off private funding, we can draw from that. We ha
contributions from private foundations and there are other sour
of funding that WOW has from its other programs.

Mr. BUTLER. In effect, you borrow from private funding that y
have in reserve?

Ms. YINGLING. Right; we can do that.

For instance, we have a work center which gathers fees and t
kind of thing.

It is very difficult——

Mr. BUTLER. Give me some idea of how large a delay you
experiencing in response to the invoices you send to the pr
sponsor.

Ms. YINGLING. It is about 25 days. Ideally, because of the
monetary system that they have just implemented, it should
15 days. But we are finding that we have not felt a change

Mrs. COLLINS. Will the gentleman yield?

When you find yourself in a situation where someone has b
you for payment due in 15 days, and when you start losing
counts would you have to borrow money at a certain amou
interest?

Then when the funding comes in, they just send that minus
interest? Is that the kind of thing you are talking about?

Ms. JONES. Right.

Mrs. COLLINS. Thank you.

Mr. BUTLER. If I may have the time for one more question.
actually does your audit?

Ms. YINGLING. There are a number of kinds of audits tha
done on our program. We have a yearly audit done by an ou
accountant because we are a tax-exempt organization.

We also have been monitored recently by the Independent
toring Unit. However, they do not touch upon our budgetary
ess as closely as other areas. It is just participant assessmen
EEO compliance.

Mr. BUTLER. I guess I am concerned about the statutorily required audit of a subgrantee which is requested by the prime sponsor. Who actually does that one?

Ms. YINGLING. I believe that would be done by the Independent Monitoring Unit. However, I am not certain.

Mrs. COLLINS. Have you ever had an audit?

Ms. YINGLING. We have had audits.

Mrs. COLLINS. Who did those?

Ms. YINGLING. I am not certain.

Mr. BUTLER. When?

Ms. YINGLING. It would be within the years that we have had CETA funding. It has not been in my experience. However, I have not been with WOW since they have had CETA funding.

I can answer that for the record.

Mr. BUTLER. Thank you.

Mrs. COLLINS. Without objection, so ordered.

[The material follows:]

Contract	Date of Audit	Auditor
1. New Careers Program	9/18/75	Welenken Himmelfarb
2. MA 3003-11	9/23/75	Welenken Himmelfarb
3. Contract # 99-4-0001-017	6/11/76	Welenken Himmelfarb
4. Contract #11-5-500-10-010	October 1976	Alexander Grant & Co. (no report)
5. PSE Title VI - Contract #A-47	5/5/78	Gordon McMellis (no report) (pre-audit)

Mr. BUTLER. I judge that the reason you have done so well in your program is because you developed your skills and your program before CETA got involved in it.

Would that be a fair statement? [Laughter.]

Ms. YINGLING. There is a very strong internal financial system. Without the CETA accountability, we would still have a strong financial system.

Mr. BUTLER. Thank you.

Mrs. COLLINS. Mrs. Snowe?

Mrs. SNOWE. Thank you, Madam Chairwoman.

I, too, marvel at the success of the program. It seems that we have had a great many complaints about the CETA program itself nationally.

Just to follow up on Mr. Butler's question on audits, how long have you been supported by CETA funding? You have been in existence for 15 years; is that right?

Ms. JONES. Yes.

Ms. TAPSCOTT. Yes.

Ms. YINGLING. Yes.

Mrs. SNOWE. And you have had CETA funding for how long?

Ms. JONES. Since 1977. Prior to that, we had had other Department of Labor contracts which preceded CETA. That began in 1967.

Mrs. SNOWE. So you have had some audits since then?

Ms. JONES. Yes, since 1967.

Mrs. SNOWE. I think for the record we should have information as to how many times you have been audited by the Department o Labor. Obviously that is the basis of our inquiries of these hear ings.

Have you read any of the General Accounting Office's reports on the CETA program and its problems of vulnerability to fraud and abuse?

Ms. JONES. We were briefed, to some extent, on some of those problems; yes.

Mrs. SNOWE. Are there any suggestions you could give to the committee that can improve the implementation of CETA?

Ms. JONES. The three that we have outlined were allowing some provision for multiyear funding. This would allow more continuit and would offset, at least to some extent, the delay in the receipt o the initial grant.

Also, if there was some reason why the subgrantee was not livin up to its contract, the multiyear funding could still be stopped. I would also enhance the ability to perform the duties necessary t operate the training program.

Second, would be to increase administrative costs so that th accounting systems that CETA would like us to implement could b done with the appropriate staff and resources.

Third would be to fund some sort of followup that would exten beyond 2 weeks after placement of a trainee in a particular pr gram.

Mrs. SNOWE. You said in your testimony that you set up separat accounts for the CETA funds.

Ms. YINGLING. That is required

Mrs. SNOWE. That is required by the Department.

So, you have had no problems at all in monitoring the expend tures?

Ms. YINGLING. WOW internally has had no problems. In fact, v are very closely monitored aside from the CETA requirements, ju about on a weekly basis, by simply conferring with their accoun ant and with their finance officer.

Mrs. SNOWE. Lastly, you mentioned followup. Are you restrict by the Department of Labor in following up the placement of yo trainees after 6 months?

Ms. JONES. They do not pay for staff hours to do the necessa followup. Since we do have this close relationship with indust and we do operate several programs, we are able to do the follow because we are in touch with the people, both those who have be placed and with their employers.

We then have program people who are able to do this in additi to their regular duties.

Our trainees last summer formed an alumni association.

As a matter of fact, they submitted a letter to Mayor Barry support of our program.

Mrs. SNOWE. How many are training in that program on a yea basis?

Ms. TAPSCOTT. Anywhere from 60 to 90, depending upon the t of training that we are doing.

Mrs. SNOWE. I see.

Ms. YINGLING. We are getting so big now that I think we are averaging about 100 a year.

Ms. TAPSCOTT. Yes, it certainly could be more.

Mrs. SNOWE. Your program could reach a maximum of 100? How many could you actually train in your program?

Ms. TAPSCOTT. We will, in fiscal year 1980, I think, go as high as about 120. This is looking at the number of people that we have proposed to train and the numbers that we are getting in.

That is one of our problems and that is one of the major problems with the prime sponsor in the District—recruitment. We cannot train the number of people we contract for because we cannot get that number of people in our program. We are not functioned to recruit. That is the responsibility of the prime sponsor. We receive approximately 1.5 referrals per slot. We wanted to train, starting in March, 40 women in electromechanics, but we could only bring on 30 because that was the number referred to us.

Mrs. SNOWE. Thank you.

Mrs. COLLINS. With all of the problems of unemployment in the District of Columbia, are you saying that the District of Columbia is not sending you enough people for this training?

Ms. JONES. Yes. I think, though, that the problems are varied. One, for persons seeking employment, proceeding through the Department of Employment Services' process is very discouraging.

There is a lot of bureaucracy for the individual to deal with. Very often a person will get discouraged and decide not to do anything.

Also, in our particular field we are training women for nontraditional employment which requires, on the part of the counselor at the Department of Employment Services, an open mind about counseling where a person should go.

Due to their workload, they are not able to give that kind of counseling. A woman might say: "Well, should I take this clerk-typist training program and build up my typing speed? Or, should I try this job as a carpenter?"

Without the proper counseling for her to explore her options, she might be more inclined to take the clerk-typist position because she is not aware of what her alternatives are.

Mrs. COLLINS. When you talk about your alumni association, do you have people coming to you through the D.C. Placement Office, as a result of having heard a success story of somebody they know?

Ms. JONES. I would say of all the different ways a person might enter the program, the largest factor would be that they know someone who was in the program and it was recommended to them by that person.

Not only can they see this person was a success, but that person can also tell them what to do when they go downtown to apply, who to talk with, what paperwork is needed, and what to avoid.

I think that is very important knowledge for an applicant to have when she comes in looking for any kind of CETA program.

Mr. GRISHAM. Will the chairwoman yield?

Mrs. COLLINS. Certainly.

Mr. GRISHAM. Motivation would appear to be the biggest problem. I guess it is because they have so many unemployed. Yet, you can only get 120 women for the entire year.

I would think you would have several thousand applicants.

Ms. TAPSCOTT. I just received a note that our average is abo 150. We can go to about 200.

We expect that we should have that many. I think it is just matter of educating the potential participants of the kinds of tra ing available.

Mr. GRISHAM. You said that the bureaucracy that applica have to go through discourages them before they can ever rea you. They have to be very strongly motivated to get that far alo

Are there any suggestions to get them more motivated?

Ms. JONES. To simplify the procedure.

Mr. GRISHAM Thank you.

Mrs. COLLINS. Thank you very much.

I think it would be interesting for the subcommittee to write Mayor Barry to let him know of these very serious problems y have getting enough people to be recruited. I think you have a ve fine placement record and that the mayor needs to know of th potential source of job placement.

I have a few more questions.

Ms. Tapscott, I believe you mentioned the dependability of t people you place. During many of the subcommittee hearings have held in the last several years, we have found that ma people talk about the structurally unemployed.

One of the reasons they have so much difficulty, we are to that, once placed, they are not dependable, they do not have go work attitudes, they do not want to come to work, they come work late, and so forth.

How has your record been? You mentioned it has been pre stable. Do you know the percentages of people who have be dismissed, once they have been placed, because their work a tudes have not changed?

Ms. TAPSCOTT. As Ms. Jones mentioned, we have an 80-perc retention rate, so the people who do not remain I think is very l

I would say it is probably about 15 percent there.

Mrs. COLLINS. You are in charge of the counseling services, that correct?

Ms. TAPSCOTT. Yes.

Mrs. COLLINS. When you begin counseling people who have b classified as hard to employ, or who have the wrong work attitud how do you approach the problem?

Ms. TAPSCOTT. Initially we start out with what we call an ori tation questionnaire of getting them oriented to the whole world nontraditional work in general. This includes the kind of recept they can expect, how their families might feel, and how th friends may feel about it.

Then we do another component on problem solving and decisi making. We utilize some of the problems they might incur th Ho to get to work on time. That might be a problem fo participant.

If that is a problem statement she comes up with, then we w that through, through all the steps in the problem solving situa and the kinds of alternatives. We see which one she actually lizes.

We sit down with them and we go through our charting goals and their objectives throughout. One of them might just be to complete the program.

We work with them on looking at the small accomplishments they are able to make each day. That enhances their self-confidence. In turn, we are able to graduate a productive employee.

One of the other things that helps us is that we structure our training situation as close to a work situation as possible. They clock in on a timeclock when they come in in the morning. Their time is kept on the construction project just as it is on a construction site.

Mrs. COLLINS. That is interesting.

Mr. Butler?

Mr. BUTLER. Thank you.

I am interested in how you develop this relationship with the business community. I think you have mentioned IBM.

What about the smaller businesses? For example, are you in a position to act if a small businessman comes to you and says: "I have a particular need. Will you find somebody and train them for me?"

Have you developed a relationship that enables businesses of that size to come to you and you can prepare someone for them? Is that beyond your scope?

Ms. JONES. From our experience we do tend to place with larger companies more than with very small ones. No small companies have come to us asking for specifics so far as what a worker would need to be employed by him.

Very often standards set by firms like IBM or the Bell System more than adequately meet the standards set by a smaller concern.

Mr. BUTLER. So you do not feel they have been left out?

Ms. TAPSCOTT. Our job developers seek them out as placement. We have an employment resource group. They do seek out the smaller employers as well as the larger employers in looking for jobs for our people.

They get feedback. They get information about what that particular employer is looking for in an employee. This is brought back to us. When we have our regular staffings on the given programs, this information is fed, and we begin to look at what we can do if we are not meeting any of their standings.

Mr. BUTLER. I have one more question.

Is there anyone from the prime sponsor or the Department who has ever come to you and said: Do you have any suggestions for improving our procedures?

Ms. JONES. At a conference we held last year in one of the workshops, someone suggested that the counselors at the Department of Labor be better informed about our training programs.

As a result of that, I went to a number of the neighborhood centers to tell the people about our program. One of the more pleasant outcomes of that particular interaction is this.

First of all, when they are counseling someone for a job or a training slot, they might think of us. Second, in one case we had a brochure which featured pictures of our graduates and a little bit about what they were doing now.

One of the counselors remarked: "Oh, I recognize that particul
person. She came in here a year and a half ago. I wondered wh
happened to her."

As I mentioned earlier, these people have a heavy workloa
People become names and numbers to them. This helped her to s
the results of her efforts and made her more willing to couns
someone to join our program because she was able to get th
feedback which was important to her to perform her job.

I think more dialog of that type would be helpful. At the mome
that is the main thing I have heard from the Department of Labo
that is, asking us to suggest to them so far as helping them
their job better.

Second, the U.S. Department of Labor recognized our program
electromechanics as a model program under the Private Sect
Initiative Act. That was in 1979.

Ms. YINGLING. We also have been approached by another loc
prime sponsor in Montgomery County to establish and provi
technical assistance for an electronics training program.

There we are training women and men. That was also because
our good record. So, we have been approached by other prim
sponsors.

Mrs. COLLINS. Thank you.

Mrs. Snowe?

Mrs. SNOWE. I have no further questions.

Mrs. COLLINS. I have a couple more questions. Would you like
be able to do your own recruiting?

Ms. JONES Yes, but not our own CETA certification.

Mrs. COLLINS. Would that help you fill all your slots?

Ms. JONES. Yes.

Mrs. COLLINS. You mentioned about your internal controls.

We find that this has been a problem in many of the institutio
and with subgrantees, and everybody else using Federal fun

We found internal control is very often a weakness of a progra
Unfortunately, CETA and the Department of Labor and a lot
other agencies do not provide the kind of monitoring that is nec
sary. I am told by staff that your internal control system is pre
good.

You do, therefore, place a good deal of emphasis on inter
control of Federal funds as well as other funds; is that corre

Ms. JONES. Correct.

Mrs. COLLINS. Has anyone from CETA ever come out to look
your internal control system? Or from the Department of Lab

Ms. YINGLING. I believe so. In fact, I have just been told that
did receive a CETA audit, which encompassed that, 3 years a

However, our contracting officer works very closely with th
finance officer and their accountant. However, I am not s
whether she has asked to see the books be opened to her and
how we manage everything.

Mrs. COLLINS. Thank you.

As I understand it, you have received significant donations
time and material from commercial corporations as we have
before.

When you approach these corporations, do you approach them for any kind of financial donations as well as training skills, equipment, and things of that kind?

Ms. JONES. They give us in-kind contributions and not financial support.

Mrs. COLLINS. Thank you.

I have no more questions. Are there further questions from other members?

We thank you ladies very much. You are doing a terrific job.

[Ms. Jones' prepared statement follows:]

Testimony of the

Wider Opportunities for Women

Nontraditional Work Programs

Before the House Subcommittee on

Manpower and Housing

May 20, 1980

Madam chairperson and members of the subcommittee, thank you for this opportunity to testify on behalf of Wider Opportuniti for Women. I am Joy Jones, Information and Outreach Specialis representing WOW's Nontraditional Work Programs. With me toda to answer your questions are Carolyn Tapscott, Coordinator of Counseling Services, and Beth Yingling, Coordinator of Adminis tive Services. We are speaking today about effective CETA training with sub-grantee accountability to the prime sponsor.

Wider Opportunities for Women (WOW) is a Washington based, non profit women's employment service and advocacy organization wh has offered career counseling, training and placement services women for the past fifteen years. In addition to our nontradi al work programs, WOW's projects include a national network pr ject for sixty affiliated women's employment programs, career development services which include a Work Center, a program fo minority deaf women, a career development and job assistance program for public service employees, an employment services

program for displaced homemakers forced into the work place after divorce, widowhood, or termination of public assistance. Since 1967, WOW has run several programs funded by the DC Department of Employment Services (formerly DC DOL) under the Manpower Development and Training Act, the Employment Services Act, and now, the Comprehensive Employment and Training Act - CETA. As a CETA subgrantee, WOW's Nontraditional Work Programs currently train and place District of Columbia disadvantaged women in skilled occupations that traditionally have been closed to women -- electro-mechanics, auto mechanics, sheet metal work, laborers work, painting, plumbing, carpentry and electricity. WOW's CETA programs have the support of nine leading industries and six building trades unions.

WOW's job placements prove that these programs are effective. Eighty-three percent (83%) of our graduates secure unsubsidized jobs in the private sector. Women who were previously unemployed, recipients of public assistance or under-employed in low skill level jobs become communications technicians, electronics technicians, apprentice carpenters, meter testers, shop mechanics. They work for companies such as A.T.& T., Amtrak, Paktron, PEPCO, Tektronics, Truland, George Hyman Construction Company, Turner Construction, and others. Average starting salaries range from four dollars to six dollars an hour compared to the three dollars an hour which is the average wage trainees earned in previous jobs. Additionally, these jobs are career-track positions, offering advancement opportunities and fringe benefits.

Participants in our program reflect typical CETA populations. The women in our program are the structurally unemployed; people with limited skills and education. Twenty-eight percent (28%) have no high school diploma or general equivalency diploma. Ninety-seven percent (97%) were previously unemployed, three percent (3%) under-employed. All of the women have incomes at the poverty level and are classified as economically disadvantaged. One-third of them receive some form of public assistance and more than half are heads of households. Ninety-percent (90%) are black women, a group that has historically been denied well-paid employment. The Income and Poverty Statistics Branch of the US Branch of Census reports that in 1977, the average total money income for white males was $17,394 compared with $8,897 for black females.

Why We Succeed

This CETA program succeeds in making unskilled women work-ready, placing them in well-paid, productive jobs. The program is cost efficient, and accountable to the prime sponsor. This success is a result of major factors: internal and external accountability; private industry participation; and the comprehensive training which includes skills acquisition, support systems and counseling for CETA participants.

Accountability

WOW practices careful record keeping and sound accounting in the operation of the organization. All financial controls specified by the AICPA are followed by the accountant who works under the

direction of a CPA. WOW's supporting systems and records (including a financial policy statement) are available for inspection at any time. WOW's payroll records are kept on a computer which breaks down the cost categories according to job function. Funds from each CETA contract are kept in a separate bank account and are segregated from the other funds of the organization.

As a CETA subgrantee, WOW files Monthly Participant Progress Reports, Monthly Progress Reports, and a Monthly Invoice to DC DES, the CETA prime sponsor. DC DES also receives Notices of Participation (one time only), Requests for Allowances, CETA Status Change Reports, and CETA Participation Extension Requests. At the close of each intake period, we submit a memorandum noting the number of prospective participants referred, the number accepted, the number rejected and reasons for rejection.

Industry Involvement

From the initial planning stages, WOW consulted industry in the design and implementation of the program. We asked industry: Where is the greatest need for employees? What qualifications should they have? How do you train your own employees? IBM answered first by assisting WOW in developing the program structure and curriculum for our pilot program, Basic Electro-Mechanics. Since then, five other businesses and three trade unions have

become co-sponsors and now form the Industry Advisory Committee (see attachment). In addition to information and technical advice, the IAC members give in-kind contributions. Documented in-kind support from industry has exceeded $75,000 and has leveraged approximately $782,000 in public funds. The donation of media and equipment provides useful training materials and saves money. A sample of these contributions include:

IBM - electronics laboratory equipment
AT&T - color video tape on WOW training program
C&P - desks, chairs, file cabinets, office equipment
McGraw-Hill - electricity and electronics textbooks and workbooks

All of these give placement assistance. However, industry involvement is not limited to donations of equipment and materials. The companies and unions are active participants in the training program. Many of our courses are taught by industry personnel. For example:

A Pitney Bowes Field Service Manager teaches WOW students the basics in mechanics by servicing paper processing machines.

An AT&T Communications Manager conducts an electricity laboratory one day a week for a year.

An IBM Customer Engineering Manager teaches repair of electric typewriters along with providing fifteen selectric typewriters for the class.

The close cooperation between industry and a CETA program encourages private business representatives to have a greater interest in the outcome of the program.

Skills Acquisition

Every facet of the training program is skill-specific. By demonstrating the job relatedness of each curriculum area, WOW ensures that trainees are prepared for the technical trades.

For instance, rather than learn traditional sequential math - addition, subtraction, etc - at WOW trainees learn only the math skills necessary to perform well in a chosen trade. Often, the trainees begin by learning algebra! But the technical skills acquisition hinges on the instruction and training accomplished in electricity, electronics, and mechanics classes and labs. In house and industry-~~loaned~~ leaned instructors work in concert to devise innovative curricula and teach theory and hands-on application.

Additional instruction in communication skills and physical conditioning is provided. Trainees must be able to use technical vocabulary and communicate effectively to be successful in the work world. Also, physical training is critical for women entering the demanding trades.

Support Systems

Because CETA works with people who are unsuccessful or ill-prepared for the workforce, and in our case, when introducing women to nontraditional occupations, we must equip them not only with marketable skills, but with work/life planning skills

as well. This is done through the support systems - counseling, individualized learning, job development - which are closely linked to technical skills training.

Counseling

Trainees are referred to our program by the DC Department of Employment Services. WOW's intake counselors interview potential trainees about related experience, work history, interest and understanding of the nature of the work. Interest and motivation are the factors that best determine whether a client is likely to succeed in the program and on the job.

During the first few days of the program, trainees establish career and personal goals, develop methods for reaching those goals. Interim short term goals are established to foster a sense of self-esteem and accomplishment. Immediate needs concerning child care, health care, transportation, money and other basics are defined and solved. Trainees who have more serious emotional or medical problems are referred to the appropriate social service agencies for additional help while enrolled in the program.

Job Development

Trainees participate in the employment resources workshop throughout the training process in order to prepare for the job search. These workshops, help trainees learn how to research the job market, write resumes, conduct interviews and maintain a job once it has been secured.

The employment resources specialists also work with employers, preparing employer information profiles and market analyses, compiling data on test and other entry requirements, developing on-the-job training and work experience contracts, and follow-ups with employers and trainees after placement.

The coordination of these efforts in counseling, skills acquisition and job development ensure that a trainee is work ready upon graduation. Proof of the trainees' ability to find and maintain a job is reflected in the placement rates. Six months after initial placement, eighty percent (80%) of them retain their original jobs, or progress to advanced positions within the field.

Problems

Implementation of successful CETA programs is often made difficult by structural constraints with the CETA system. CETA subgrantees, particularly small community based organizations such as WOW, are restricted by unrealistic ceilings on administrative costs, one-year funding cycles and the restriction on follow-up of CETA clients beyond the two weeks immediately following placement.

Administrative Costs

In the District of Columbia sub-grantee administrative costs are limited to fifteen percent (15%) of total program costs. Accountability and efficient management of CETA programs require

administrative staff to keep financial records, complete the myriad CETA forms and paperwork, maintain personnel records on both staff and trainees, and prepare monthly invoices and reports for the prime sponsor. However, CETA regulations limit the size of the administrative staff regardless of the needs or complexity of the project. CETA must be willing to allocate monies in order for subgrantees to implement strong systems of accountability.

Multi-year Funding

WOW's CETA contracts are awarded on a twelve month basis, but multi-year funding would have decided program advantages. A two-to-three year funding cycle would permit subgrantees to devote more time to program management and would enable the prime sponsor to do long-term observation and evaluation. The often slow process for awarding contracts delays the recruitment of the trainees and the hiring of new staff, and makes the retention of senior staff members difficult. It also creates a severe cash flow problem requiring an orgahizatio to borrow money to continue exisitng while waiting to learn if the program will be funded. Interest on the borrowed money adds another strain to the budget. Even though the need to borrow money-and pay the interest is a direct result of the CETA system failure to provide funds on schedule, the government does not cover this expense.

Follow-up Costs

What happens to a client one year, six months, even ninety days after placement? Did the job work out? Did the training adequately prepare the trainee for work? CETA regulations discourage finding out the answers to important questions such as these because vendors are not funded to do follow-up beyond two weeks after program completion. Follow-up is important because it establishes an on-going relationship between CETA operators and employers. If problems arise on the job, sometimes a staff member from the training program can intercede to resolve the problem. Also, feedback from supervisors and workers provide information that can be used to improve the operation of subsequent training cycles. However, without providing funds to pay for follow-up staff-hours, CETA diminishes the overall effectiveness of its training programs.

Mrs. COLLINS. Our next witness is the Associate Director of the Financial and General Management Studies Division of the General Accounting Office.

Mr. Egan, will you please identify for us the gentlemen who are accompanying you?

STATEMENT OF GEORGE EGAN, ASSOCIATE DIRECTOR, FINANCIAL AND GENERAL MANAGEMENT STUDIES DIVISION, GENERAL ACCOUNTING OFFICE; ACCOMPANIED BY ROBERT RASPEN, GREGORY ULANS, STEPHEN BACKHUS, AND CLARENCE WHITT

Mr. EGAN. Thank you, Madam Chairwoman.

You may recall meeting Bob Raspen and Steve Backhus from our staff who testified last week.

We also have Greg Ulans and Clarence Whitt of our staff.

I have a prepared statement and appendix, which I would like to have inserted in the record.

Mrs. COLLINS. Without objection so ordered.

Mr. EGAN. We are pleased to be here today to discuss the results to date of two reviews which involve the Department of Labor and selected CETA grantees. The first one dealt with the effectiveness of the internal audit of CETA and their CPA firms. The second dealt with the vulnerability assessment of prime sponsors and subsponsors.

In terms of the effectiveness of the audit, audit is a basic control of Government. Government has to prevent unauthorized expenditures by its grantees. Labor has benefited from the audits of CETA grant recipients. However, Labor's record in accomplishing audits of the prime sponsors has varied significantly around the country. Overall, fewer than one-half the required audits have been per-

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formed. Furthermore, those audits indicate a need for improving their quality. Finally, Labor has not had an effective system for controlling and summarizing the subgrantee audits.

The principal reason for Labor's inability to accomplish more audits has been a lack of audit resources.

In terms of audit coverage, CETA regulations require Labor to audit grantees annually, but not less than once every 2 years. If these regulations had been complied with, every original CETA prime sponsor would have been audited at least twice by now. We found, however, that there were still prime sponsors that had not been audited for the first time as of September 1979.

Between December 1973 and October 1978, over $26 billion was spent by about 460 prime sponsors. Only 320 of the 460 had been audited as of September 30, 1978. In one Labor region, only 24 out of 105 prime sponsors had been audited. The remaining 81 prime sponsors had not been audited. The money they had expended is $2.4 billion. Since the time of our review, Labor has indicated to us that they have completed an additional 111 prime sponsor audits.

As to the quality of the audits, we reviewed some of the audits that have been accomplished under the CETA program and found that the audits of prime sponsors are obviously not always timely. They do not address management responsibilities over subgrantees and contracts, and they do not have all the characteristics of a quality audit.

The most serious case we found involved an audit of a 25-month period and $30 million of CETA funds. We found:

One, the grantee records did not support the reported expenditures, yet this was not disclosed in the audit report.

Two, the auditors were unable to reconcile the grantee's cash receipts with the final cash balance. Rather than reporting the discrepancy, the auditors inserted a $448,226 plug amount to obtain a balance.

Three, the auditors made a $576,000 error in computing the amount of administrative costs to be allocated to the grantee.

As to audit resources, Labor has had difficulty in controlling the whole audit process largely because the Inspector General's Office has not had adequate resources and the record indicates that the Department of Labor has historically not shown a commitment to the audit process. It might be interesting to note here that when the CETA program first started, Labor had 144 professional auditors. As of last year they had 124 professional auditors. In effect, over that period of time Labor reduced the number of audit staff by 20 people.

I would like to turn now to the vulnerability assessment. I would like to discuss the preliminary results of this audit. This effort is a vulnerability assessment of Labor headquarters and selected regional offices and grantees. In making this vulnerability assessment, we were particularly interested in determining whether Labor as a whole had an adequate system of internal controls at all levels of its organization that would provide adequate protection against fraud, theft, and abuse of Federal funds and assets purchased with Federal funds. In this regard, we did not concentrate on determining how much fraud has occurred, but instead focused on how such illegal acts could occur as a result of internal control

weaknesses. We were interested in identifying areas where Labor is vulnerable to abuse or error.

In making this assessment, work was performed at Labor headquarters, four regional offices, five CETA prime sponsors, and four subgrantees. We also reviewed numerous reports pertaining to Labor's investigations of alleged fraud and waste. I have included examples of several findings as an attachment to our statement.

In reviewing the administrative activities of Labor and its regional offices, which support CETA, we found that:

One, procurement invoices were approved for payment and later paid without purchase orders or other supporting documentation to insure validity or without checking to see if the bill had already been paid.

As a result, duplicate payments have occurred. Departmental records indicated that 148 duplicate checks have been returned by vendors and contractors between January 1976 and May 1979, totaling over $198,000. These are vendors that have returned the duplicate checks.

Two, employee travel advances were not being sufficiently reviewed. Such reviews are important, especially to insure that employees who quit their jobs have repaid these advances. Our limited test of travel advances revealed that more than 200 labor employees have left the agency without paying advances that were outstanding. These advances totaled more than $70,000.

Three, payroll corrections were not being sufficiently reviewed at the time of our audit. As a result, one Labor employee, over 18 pay periods, fraudulently obtained $13,000 by adding his and other names and amounts of money to supplemental payroll registers.

Four, Labor's failure to seek competitive bids resulted in the award of a 12-month, sole source contract for $99,985 to a contractor whose qualifications and expertise were questionable. The returns on this procurement were described by Labor officials as being of inferior quality and of only limited value.

Five, equipment purchased was not being physically inventoried annually. Eight of twenty-nine items we selected for review from property records, such as calculators and typewriters, could not be found.

Let me speak now about the CETA prime sponsors and subsponsors. Regarding the CETA program specifically, we found internal controls to be unacceptably weak at grantees. These conditions make the grantees very vulnerable to illegal acts and unintentional errors.

For example, we found:

One, prime sponsors were not reviewing subgrantee requests for cash or subgrantee cash balances and, as a result, excessive amounts of CETA money was being maintained by the subgrantees.

For example, one subgrantee, over a 6-month period we reviewed, had from four times to seven times more cash than was authorized. This meant that it had as much as $372,500 to $728,890 more than it should.

Two, one of these subgrantees committed $25,000 of its CETA money to purchase 1,024 water meters for installation in private homes. Officials attempted to justify this purchase by explaining

that it was for training 12 CETA participants to install and read the meters.

Three, this same subgrantee used $329,000 of its excess CETA cash to finance its city payroll for 1 week. Over the ensuing 5-week period, the CETA payroll was paid by the city.

Four, none of the prime sponsors or subgrantees we visited sufficiently verified CETA participant eligibility. This creates an exceptionally high risk that ineligible people are being trained. For example, 30 percent of 114 applications reviewed at one subgrantee did not contain any or sufficient information on the applicants previous income to determine if they were eligible. A Labor study estimated that as many as 10 percent of CETA participants nationwide do not qualify for the program.

Five, CETA participant's time and attendance reports were often not reviewed. This resulted in: (*a*) Regularly paying one CETA employee for 80 hours of work each pay period when this person worked only 60 hours—overpayments totaling $1,445 over 10 months; (*b*) participants being paid for 8-hour work days when they worked only half days; (*c*) paying a suspending employee for 35 hours of work never performed; and, (*d*) inaccurate leave balances.

Six, several grantees did not systematically approve, process, and record travel transactions. For example, one grantee did not always require travel orders or travel vouchers, but rather paid fixed monthly travel allowances of $5 to $25 to employees.

Seven, grantees did not always conduct annual physical inventories of property or investigate discrepancies.

For example, one prime sponsor, upon conducting a physical inventory, discovered 19 items valued at $3,260 missing from its inventory but did not investigate the loss. Among the missing items were four typewriters, one dictating machine, a pocket calculator, and a duplicating machine.

These examples typify the kinds of weaknesses we found in payroll, purchasing, travel, cash management, property management, and participant eligibility at nearly every location visited during our vulnerability assessment.

When considered in total, this led us to conclude that the CETA program is very vulnerable to fraud, abuse, and error, and that internal controls at all levels of the CETA program need to be improved.

I would like to add one final aspect to my testimony which deals with the work we have done in unresolved audit findings. We testified about a year ago with Chairman Brooks' committee. The report was entitled, "More Effective Action Is Needed on Auditors Findings—Millions Can Be Collected or Saved."

We addressed $4.3 billion of unresolved audit findings. We reported lengthy delays in resolving audit findings at many Federal agencies, including Labor.

As part of our vulnerability assessment, we checked to see whether Labor has made progress in terms of reducing the length of time to resolve audit findings. While some improvements have been made, there are still considerable delays. As of September 30, 1979, for example, Labor reported that it had a total of 810 unresolved CETA audits involving $172.3 million.

We also know that in some cases audits disclosed numerous internal control weaknesses at grantees which went uncorrected after the audit.

This concludes my statement. I hurried through it, but I thought it might be more important to get to the questions that your subcommittee may wish to ask. We would be more than happy to answer any questions you might have.

Mrs. COLLINS. Mr. Egan, I am really shocked by some of the findings of GAO. I thought last week when we had GAO findings on some of the things that are happening at the Community Services Administration, I had heard it all.

But I must tell you I am alarmed at some of the things that your report has indicated. These are very serious weaknesses in the auditing program as it relates to the Department of Labor and CETA.

In looking at some of the attachments you have to your prepared statement, I am even more alarmed than I am with your written testimony.

Mr. EGAN. In the attachment are some of the things we have found, as well as some that Labor themselves found—the auditors and investigating teams have found—in their work. This represents a compilation.

We tried to address particular problems. There are many, many more reflected in the audit reports shown on the attached. We just attempted to give you a brief overview of the types of situations that are occurring.

Mrs. COLLINS. When the Department of Labor comes here tomorrow, I intend to ask about some of these audit findings and to make them aware that we are very much alarmed over such things, as $2,850 being used to pay for a wedding and reception on the Queen Mary. [Laughter.]

I find this totally unbelievable.

I have some questions, but before I proceed, I will recognize Mr. Butler.

Mr. BUTLER. Thank you, Madam Chairwoman.

Before we get to that, have we received the statement for the Department of Labor's testimony tomorrow? Is there a representative of the Department of Labor here? Is someone here representing the Department of Labor?

[No response.]

Mr. BUTLER. I think we ought to be pretty insistent on that. Could we insist on that again?

Mrs. COLLINS. We indicated in our letter to them that we wanted their testimony well in advance. It is a matter that we might discuss with them again tomorrow.

Mr. BUTLER. Thank you. I was hoping someone would be here to carry the message. I guess they are busy preparing the statement.

Let us turn to page 10 of your testimony. You say CETA internal controls are unacceptably weak at grantees despite Labor regulations which provide guidance and requirements.

Let us begin with this premise. Do you think on paper the system is pretty good?

Mr. EGAN. On paper, and the regulations that are prescribed; yes, they are more than adequate.

I think we are talking about problems associated with poor contracts. I was very interested in hearing the previous witnesses today. Management attention is one of the key issues to an internal control system.

What they described sounded like a fairly sound internal control. Internal control starts with management. These women running that program apparently want to have the financial integrity. It is there because they want it.

That is true of all the 50,000 or 55,000 subsponsors. I think the message has to go out that the Government is concerned about how we are controlling our assets. The procedures are there.

Our concern is that the procedures are not being implemented properly.

Mr. BUTLER. I think the first witnesses illustrate what you say. The desire is there. They have risen above it. They have been able to do this and accomplish internal control despite the prime sponsor and the Department.

But I am still concerned. How do we get the message out, then, if that is the problem?

Mr. EGAN. The message, in terms of strong internal control, in terms of Government programs, is there. I have spent a quarter of a century in Government and most of it in GAO.

It has only been in the last several years, or even less, with the passage of the Inspector General bill, with the concerns of Government itself, that there needs to be a control of assets.

I think in the past we were not that concerned about the intricacies of financial management. The concern was that the programs were important. Let us get the programs out there to do the job.

I think the concern now is that we should look at the financial management aspects and could we get a better program and could we get more money out to the recipients that need these programs and could we get an overall better management of the programs.

I think it has only been in the last couple of years where there has been a concern. OMB has issued many circulars in the last 2 years. In fact, there is one dealing with unresolved audit findings, which is key.

There is $4.3 billion of unresolved audit findings sitting around the Government not being collected. It is mainly lack of attention.

President Carter and OMB came out with a revision of the circular in December 1979—only 6 months ago. They are actively pursuing resolving those particular problems.

So, I think the idea of cash management and internal controls is something that is timely. It is far overdue. The message comes from the top all the way down to the subsponsors level.

If they see that the Federal Government is not that concerned about strong internal contrcls, then how can we expect all the smaller levels to comply?

Mr. BUTLER. You indicate that Labor has accomplished less than half of the required CETA audits. Can you identify the person in the Department who is responsible for assuring that audits have been done?

Mr. EGAN. I think that would point to the Inspector General. Marjorie Knowles was the first to be appointed Inspector General when the act was passed in October 1978. My understanding is that

he since has resigned and they are searching now for a new nspector General.

We have to look to that particular office for meeting that partic- ılar requirement. We also have to look to the Secretary to provide the audit resources to enable her to carry out that responsibility.

I think it is a shared responsibility from the Secretary and the Inspector General to make sure these audits are carried out.

Mr. BUTLER. You know a shared responsibility is no responsibili- ty in situations like this. It seems to me that there ought to be an identifiable person within the Department of Labor who has a responsibility to insist on it. I think we ought to be able to identify that person.

The Inspector General, of course, has the general responsibility. But if a prime sponsor has not been audited, somebody in the Department is not meeting his responsibility. Can you identify that person in any instance?

Mr. EGAN. I have a hard time with that. The only thing I can say is that you have to look to the audit inspection office and that has to be the Inspector General.

The bill was very specific. Her responsibility as Inspector Gener- al is to provide that kind of coverage, to do audits in conformance with the Comptroller General standards.

It seems to me that the responsibility that the Inspector Gener- al's office has.

Mr. BUTLER. You feel as though the Inspector General has been given an opportunity to go into this?

Mr. EGAN. I would not want to speak for her directly, but——

Mr. BUTLER. She has gone. Nobody is going to speak for her.

Mr. EGAN. My own assessment of the internal audit—and I have been in the Government long enough to know that there has been problems. It has only been since the passage of the Inspector Gen- eral Act that we finally see an opportunity for auditors to finally get staffed.

Historically, every audit agency around town is the last to get staff and the first to go. I think we now see—and I have been at several meetings recently where the Inspector Generals are meet- ing as a group, all 14 of them. There is additional resources being pumped into the 1981 budget. In fact, there are going to be 60 additional auditors and 61 or 62 additional investigators being given to the Inspector General's office at Labor.

Hopefully that will provide the type of support to close the gap on our prime sponsor audits.

Mr. BUTLER. Can you give me a list for the record of those prime sponsors which have never been audited?

Mr. EGAN. I will be glad to.

Mr. BUTLER. I think we should have that list for the record.

Mrs. COLLINS. Without objection, so ordered.

[The material follows:]

CETA PRIME SPONSORS

NOT AUDITED AS OF MARCH 31, 1980*

Chicago:

1. Tippecanoe County, Indiana.
2. La Porte County, Indiana.
3. Ann Arbor, Michigan.
4. Minnesota Rural CEP.

Dallas:

1. Calcasieu/Jefferson Csrt.
2. Commanche Co, Oklahoma.
3. Oklahoma Co, Oklahoma.
4. Oklahoma City Csrt, Oklahoma.
5. Tulsa Csrt, Oklahoma.
6. South Plains Csrt, Texas.
7. West Central Texas Csrt, Texas.
8. Pasadena City, Texas.
9. East Texas Csrt, Texas.
10. Balance of State, Texas.

Mr. BUTLER. Madam Chairwoman, I do have more questions, but suppose you let others question first.

Mrs. COLLINS. Why not go to Mrs. Snowe and then come back to you?

Mr. BUTLER. That will be fine.

Mrs. SNOWE. Thank you, Madam Chairwoman.

Mr. Egan, the Department of Labor does not have any systematic auditing of prime sponsors and they have not implemented any, as such. It is obvious because of the prime sponsors that have never been audited; is that correct?

Mr. EGAN. My testimony indicated that we finished looking at what was done through September 1978. The following year, when the Inspector General came on board, and there was more staff and more attitudinal changes, so to speak, there was an additional 111 audits conducted.

So, they are moving. It appears to be rather rapidly to closing that gap in terms of auditing the prime sponsors.

Mrs. SNOWE. What do Department regulations stipulate as to the frequency of audits with respect to prime sponsors?

Mr. EGAN. The required number? Every 2 years, at minimum?

Mr. RASPEN. They are supposed to be done every year, and at a minimum every 2 years.

Mrs. SNOWE. I see. And you found that it is not occurring?

Mr. EGAN. That is correct.

Mrs. SNOWE. What is the feeling about the Department's attitude toward auditing and insuring strong internal audit controls?

Mr. EGAN. I think there is a changed attitude since the testimony we gave to Chairman Brooks dealing with our $4.3 billion of unresolved audit findings.

Labor was one of the agencies we reviewed in depth. I think there is a new attitude toward audit, to resolving the audit findings, to take cognizance of those particular audit findings and doing something about them.

So I think there is a renewed interest on the part of top management in Labor to be responsive to audit findings. I think the attempt to get additional staff here is a further indication that

*List submitted to GAO by Department of Labor.

they are, at least, concerned about increasing their efforts in the audit area.

Mrs. SNOWE. It is obvious it is up to the Department of Labor. They have the authority and they are the ones who can enforce and impose pressure on the prime sponsors for their reports and also to conduct the audits as necessary.

You mentioned on page 10 that the internal controls are unacceptably weak. Are they weak on paper or just weak in testing those controls?

Mr. BACKHUS. They are weak in both. In many instances there are written procedures, but they are inadequate.

In testing, we found them also to be weak. So, it is both.

Mrs. SNOWE. So the Department of Labor has not delineated standards for audit controls?

Mr. BACKHUS. Oh, I am sorry. I misunderstood.

Mrs. SNOWE. I am trying to figure out the process here.

The Department of Labor has a standard operating procedure?

Mr. BACKHUS. Yes.

Mrs. SNOWE. So that is ineffective; based on your impressions?

Mr. BACKHUS. It is not being implemented.

Mrs. SNOWE. It is not being implemented. If it were implemented, what would it be?

Mr. BACKHUS. Effective.

Mrs. SNOWE. It would be effective?

Mr. BACKHUS. Yes.

Mrs. SNOWE. So, apparently Labor has not been enforcing the audit controls and has not been conducting the audits.

The prime sponsors have to submit an annual plan to the Department of Labor. Is that management control, too? Is that how they spend their money?

Mr. BACKHUS. That is part of it; yes.

Mrs. SNOWE. Is that part of the audit control at all?

Mr. BACKHUS. Yes; the audits that are conducted at the prime sponsors include program management as well as internal control.

Mr. RASPEN. However, the Department of Labor is responsible for contracting for the audits at the prime sponsor level.

So, you have a split between Labor and the prime sponsor. The prime sponsor is responsible for contracting for audits of the subsponsor.

Mr. EGAN. In other words, in the case of the District of Columbia as prime sponsor, the audit of this organization should have been contracted by the Department of Labor. The prime sponsor in Washington contracts for the audit of the subsponsors.

Mrs. SNOWE. I see.

So, we find that their internal controls and audit controls are not good ones.

Mr. RASPEN. I think you are getting confused with the audit controls and internal controls of the organization. The audit program is written by the Department of Labor.

Mrs. SNOWE. I see. And are what? Internal controls are different from the audit controls.

Mr. RASPEN. Yes.

Mrs. SNOWE. Those are weak. Now what about the audit controls?

Mr. RASPEN. When we looked at the audits that had been performed, the audits were not of a very high quality.

Mrs. SNOWE. All right. Then you have two problems.

Mr. EGAN. That is right. You have problems at prime and subgrantees where the internal controls are not there. When you do an audit, the audits are not all they should be either.

So you have two fundamental issues here. We have a problem of effective auditing and we have a problem of the vulnerability of organizations because internal controls are not being adequately implemented.

Mrs. SNOWE. OK. So, you are saying the standards for audit controls are not effective as well. There needs to be two changes involved here.

Mr. RASPEN. Not the standards themselves. The standards are fine.

Mrs. SNOWE. Yes; the standards are fine. But they are not being implemented. OK. That is the problem.

Mr. EGAN. Accountants use very strange language.

Mrs. SNOWE. Now all of these auditing procedures and evaluations are done by the auditors; right, by the Department of Labor?

Mr. RASPEN. At the prime sponsor level, the Department does some of the audits themselves. In other cases, Labor contracts with a State auditor to do the audit, or they contract a private CPA firm.

Mrs. SNOWE. OK. Those who are contracted with the Department of Labor, do they have audit backgrounds? Are they sufficiently trained and experienced?

Mr. RASPEN. They are certified public accountants.

Mrs. SNOWE. I noticed in this report that was done by the Department of Labor for the full Committee on Government Operations, mentioned many of the Federal representatives of the Department of Labor were not adequately trained in this area.

I did not know if you were aware of this.

Mr. RASPEN. I think it might have been in terms of the program aspects of it rather than the auditors aspect.

Mrs. SNOWE. Oh, so that is a different kind.

Mr. EGAN. Yes. There is a requirement—the Comptroller General's standards state that when financial audit with their certification of financial statements, the organization must be headed by a certified public accountant.

I guess all the audits being done, to some extent—the ones that are being done—under subsponsors are being done by CPA firms.

Mrs. SNOWE. What do these Federal representatives do?

Mr. RASPEN. They are the monitoring aspect of the Department of Labor.

Mrs. SNOWE. I see. Totally separate from the auditor?

Mr. RASPEN. Yes. They are part of the internal controls of the organization.

Mr. EGAN. In the terminology of the prior witnesses, when she talked about the Federal representative, the contracting person—that is what we are talking about, that type of individual.

This individual goes down there and does the, "How are you doing?" type of stuff. He is not really into audit. He does not look

at the controls as such. He is just concerned about if the program is running effectively.

The Federal representative has that responsibility. He has a monitoring responsibility.

Mrs. SNOWE. I see. So he does not necessarily need auditing experience?

Mr. RASPEN. No.

Mr. EGAN. He can have zero auditing experience.

We would like to see him have a little bit, though. It would help.

Mrs. SNOWE. That whole area is a trouble spot anyway. That is an entirely different matter.

I have one other question.

On page 12 of your testimony you mentioned that none of the prime sponsors of subgrantees visited sufficiently verified CETA participant eligibility provided on applications for enrollment into the CETA program.

Were you suggesting that there are a number of ineligible individuals participating in the CETA program?

Mr. BACKHUS. We think it is likely.

Mrs. SNOWE. Is it likely based on patterns of procedures and behavior?

Mr. EGAN. Yes. Based on limited testing, we feel there was some indications of ineligible recipients or individuals in the program.

Labor themselves indicate that there is about 10 percent, they feel, of ineligible recipients. I do not know whether that is high or low, but 10 percent seems fairly high to me.

Mrs. SNOWE. So they do not verify their backgrounds? They do not do any kind of background check on the individuals' applications?

Mr. EGAN. At least the ones we took in our sample.

Mrs. SNOWE. I see. Thank you.

Mrs. COLLINS. I am sorry that the Department of Labor has nobody here today who cares enough about what might be said in the GAO report.

There are specific transactions indicated in the GAO report that I am going to ask them about tomorrow, such as this discrepancy of almost one-half million dollars.

I have a couple of questions before I recognize Mr. Butler.

It is my understanding that historically there has been a lack of commitment on the part of the Department of Labor to resolve questioned costs in audits left over from the old Manpower and Development and Training Act. I am further advised that these questioned costs amount to about $43 million.

Do any of you here today have any experience with the manpower contracts under the MDTA era?

Mr. EGAN. I go back to the days when—the bill was passed in 1964. The first audits in GAO were conducted in 1964 and 1965.

I recall, then, doing rather intensified analysis of that work. There were significant problems dealing with control mechanisms also.

Mrs. COLLINS. So really nothing has changed in the past several years?

Mr. EGAN. I think you are right. I think the concern that I have is that it has only taken place in the last couple of years—I do not

know whether it is the Inspector General bill or the concern of the people on the Hill here and the concerns at the OMB level.

There is a concern to find out what is going on in programs. I think the unresolved audit findings of $4.3 billion and Labor had $165 million at that time. I am just wondering what would have happened to them had we not brought that to the attention of Chairman Brooks who, as you know, is very, very concerned, as is Congressman Fountain.

In fact, we are doing now a rather intensified followup of that particular report at the request of Chairman Brooks. We probably will be testifying the latter part of this year on this particular issue.

But that alone indicates a concern on the part of not just Labor, but several agencies. Here we have auditors out there getting their audit report issued and there it sits with no action by management.

Mrs. COLLINS. Thank you.

Mr. Butler?

Mr. BUTLER. Thank you, Madam Chairwoman.

Let us turn to what you call audit quality. What leads to the deficiencies in the audits that you cite on page 5—that they are not timely, do not address management responsibilities, and do not have all the characteristics of a quality audit.

Then you have several examples which are quite shocking. What can you do to assure that audits are of good quality?

Mr. RASPEN. In the case of the Federal agencies, a quality assurance program should be established. We did a review about a year ago and issued a report on the quality of audits being done for three departments.

We feel there is a three-level check needed. One, all audit reports that are submitted to the Department or agency should be desk reviewed just to pick up the very obvious mistakes in an audit.

Two, a representative sample of work papers needs to be done where the Federal auditors go out and verify that the CPA firm has the work papers and he has done a good job.

Three, in some cases we think that the auditors must go out and redo a portion of the audit to make sure that what the auditor has in his work papers is true of that grantee.

For example, in many cases you see that the audit firm has stated that the internal controls of the organization are good. In his work papers he says they are good. When we go out and look, the internal controls are nonexistent.

That is what we believe. A system of quality checks is needed.

Mr. BUTLER. Is the Department of Labor in the program along the lines you just suggested?

Mr. EGAN. Yes; the quality program—Labor has a partial quality program; yes.

Mr. BUTLER. Are you satisfied with the quality of the quality assurance program?

Mr. RASPEN. In the case of the plugged figure, I believe that went through Labor's quality assurance program. In that case we are not; no.

We have not done a total review. But in this case, we believe it has gone through the Department of Labor quality assurance program.

Mr. BUTLER. In other words, it has passed two levels of audits?

Mr. EGAN. This passed through two levels; yes, sir.

Mr. BUTLER. It is a little disappointing that what you are suggesting is a third level.

Mr. RASPEN. It all depends on what level that Labor went into the quality assurance program. If it only went through the desk review—and I do not know what level it went to. That might be a question for Labor.

I do not know right off hand if it was only a desk review.

Mr. ULANS. This particular audit where the plugged figure is involved actually went through a workpaper review by the Department of Labor.

Mr. BUTLER. Just so the record will be clear, what do you mean by a workpaper review?

Mr. ULANS. In other words, the Department of Labor asked the CPA firm to send their workpapers on this audit into the regional office, whereupon they actually went into the workpapers to test certain transactions and check certain tests that the CPA firm made.

Mr. EGAN. They did not find the particular information. When we did it later on during the course of our review, when Mr. Ulans and his staff looked at it, they found these problems.

What we are saying is that their quality assurance program, in this particular instance, was not all that it should be. They did not identify the particular problems that we identified.

Mr. BUTLER. Was this a private firm that did the basic audit?

Mr. ULANS. Yes, sir.

Mr. BUTLER. What sanctions does the Department have against a private firm? I am sure they were paid. Is this a basis on which to insist on a repayment of your funds? What do you do about that? What sanctions are available?

Mr. RASPEN. The sanctions available right now would be to submit the audit to the American Institute of Certified Public Accountants, which would determine if it is a substandard audit.

Mr. BUTLER. And if it is a substandard audit performance, then what?

Mr. RASPEN. Then the Institute would take sanctions against the accounting firm. This might be continuing professional education.

If it is serious enough, they might recommend that the individual not be permitted to do audits in the future.

Mr. BUTLER. Does your experience indicate that, or do your observations indicate that the Department has ever used its sanction for an inadequate quality audit?

Mr. RASPEN. In one case an individual here in the District was prosecuted. This involved auditing, but it had to do with a false proposal. That is the only case I am aware of that the Department of Labor has.

I do not know if they have submitted any cases to the American Institute.

Mr. BUTLER. In your judgment, do you think they are using this sanction to the extent that they should?

Mr. RASPEN. I am not prepared to answer that.

Mr. EGAN. Obviously they are not using any kind of sanctions. They probably should be using more. I think there is a need for all Federal agencies and not just Labor to do this.

We are dealing with quite a bit of CPA services in Government grants. The grant program has gone from $2 billion in 1950 to $85 billion. It is going out to 90,000 agencies. They have to be audited.

Most of the audits are being done by CPA firms. I think there is an important concern here on our part to insure that we are getting quality work. We pay for it. We have to make sure we are getting a good product.

That is one of the concerns we have in the quality of the work. We have done some work in the past and we are working with the American Institute on several projects ourselves. We are trying to get a better quality of work and trying to get a better way of getting information from CPA firms.

Mr. BUTLER. That is all I had on quality.

Mrs. COLLINS. Go right ahead.

Mr. BUTLER. Let us turn to the question of audit resources.

Obviously the Inspector General has a real good excuse in that: "You did not give me the horses." But what about the possibility of employing outside auditors? Has there been any question that the Department has the authority to employ outside auditors to perform departmental audits or prime sponsor audits?

Mr. RASPEN. No; the CETA legislation provides that the audits could be done by certified public accounting firms, by Labor auditors, or by State or local audit organizations.

So, there is nothing in the law that precludes them.

Mr. BUTLER. Does that apply to both prime sponsors and subgrantees?

Mr. RASPEN. That applies to prime sponsors. However, the prime sponsors also have the responsibility for auditing the subs. They have the same options available to them.

Mr. BUTLER. Are there any limitations on the funds? Can prime sponsor funds be used for employing the auditors?

Mr. RASPEN. Prime sponsor funds?

Mr. BUTLER. The private firms.

Mr. RASPEN. Yes; prime sponsors could use the CETA grant funds to hire a certified public accounting firm. The charge for the audit services would be included in the administrative expense. There are limitations. Some titles have a 15-percent limitation. Others have a 20-percent limitation.

Mr. BUTLER. So is that the only real limitation? It is within the administrative resources?

Mr. RASPEN. That is the only one I am aware of.

Mr. EGAN. I can recall there were some questions of some prime sponsors indicating they were not quite sure they would have enough money to get the audits done.

I think that is some of the reason we had some delays in getting prime sponsors awarding contracts to get the subgrantees audited. I think those things have been cleared up in the last year or so.

In other words, the prime sponsor was saying: "I do not think you gave me enough money for an audit. I have enough money to pay the other aspects, but not for audit."

I think those things have been ironed out in the last year or so. But the prime sponsors do have the money and the authorization to get individual audits conducted.

Mr. BUTLER. So it is no real excuse to say that they do not have the resources to audit for either the subgrantee or the prime sponsor; is that a fair statement?

Mr. RASPEN. That is a fair statement for the subgrantees because it is part of the grant.

On the prime sponsor level, Labor is responsible for doing the audit. I believe it is a special appropriations. I cannot speak to the availability of that money.

Mr. BUTLER. That is what I have been trying to pursue. Can the Department of Labor use the resources allocated to the prime sponsor for the purpose of paying for the audit of the prime sponsor?

Mr. EGAN. Perhaps Mr. Ulans can answer that. How about on the Indian and migratory primes? That is audited by CPA firms.

Mr. ULANS. I know the Department has done that in some cases. I am not familiar enough with the new legislation to know whether it is possible. I know in some cases the Department has insisted that the prime sponsor actually pay for the audit of its own organization.

Mr. BUTLER. I think we will pursue that tomorrow with the Department of Labor. But if you have another view of that after you think about it, I would appreciate it.

It is my view that priorities within administrative expenses ought to first go to auditing, particularly based on what you have had to say in your earlier report.

It seems to me if we are going to turn these programs loose, we have got to keep better controls on them, both internally and externally.

I have taken more than my time.

Thank you.

Mrs. COLLINS. Mrs. Snowe?

Mrs. SNOWE. Thank you.

I would just like to ask a few additional questions.

Does the Department of Labor's Office of Audit have enough auditors? Do they have hundreds, 80, or how many?

Mr. EGAN. They have 124 now. They are getting an additional 132, of which 60 will be auditors and the balance will be investigators.

It is a pretty fair statement. I think that will give them at least adequate resources. The use of the prime sponsors in requiring that the prime sponsors insure that the subs get audited is a key to this also.

I do not want to make a judgment now as to whether enough is enough.

Mrs. SNOWE. You said 124 plus how many more?

Mr. EGAN. There will be an additional 132.

Mrs. SNOWE. Of which one-half will be auditors and one-half will be investigators.

Who does the auditing for the subgrantees? Do they contract with private firms, in most cases?

Mr. EGAN. In most cases they contract with CPA firms; right.

Mrs. SNOWE. I see.

In cases where perhaps the audit is not complete, or weak, or whatever, does the prime sponsor in question—in areas of questionable expenditures, does the prime sponsor have the authority to impose sanctions against the subgrantee?

Or, are they imposed by the Department of Labor?

Mr. RASPEN. I believe it is the Department of Labor that has the ultimate responsibility for resolving the audit findings. However, the prime sponsor also has the responsibility.

So, again, it is a shared responsibility.

Mrs. SNOWE. Who examines the audits? Do the prime sponsors examine the subgrantee audits?

Mr. ULANS. Typically the prime sponsor will contract for audits of the subgrantees. When you contract for a service, typically and ideally you want to get what you are paying for.

So, it is the prime sponsor that should be taking corrective action to make changes at the subgrantee level. It is also the Department of Labor's responsibility to review the quality of those subgrant audits to make sure that the audits are being properly done.

Mrs. SNOWE. Does the Department of Labor ever impose sanctions, to your knowledge?

Mr. EGAN. Not to my knowledge.

Mrs. SNOWE. Probably they have not.

Mr. ULANS. Do you mean repaying some of the money?

Mrs. SNOWE. Yes; like disallowed costs. Do they force people to repay?

Mr. ULANS. Yes.

Mrs. SNOWE. That was question No. 1.

Second, in cases where they did not allow certain expenditures, did they force these individuals to pay back?

Mr. RASPEN. Yes. They hold one case out as an example. The city of Chicago is supposed to have repaid $1 million with city funds. I have not verified that they were city funds. But they hold this case out as an example.

Chicago did pay $1 million back on audit findings. However, in the following year, the CETA appropriation for that city was also increased by $1 million.

But when you look at it, the city actually did put up $1 million of its own funds.

Mrs. SNOWE. Obviously the Department of Labor sets the standard for the pattern of behavior that is followed by the prime sponsors and ultimately the subgrantees.

In this case the Department of Labor never has handed down any kind of sanctions toward those prime sponsors or subgrantees if they do not conform to the audits or the internal controls? Are they doing anything? What kind of pressure is there?

What I am saying is: Is the Department of Labor saying to its prime sponsors: "If you do not do this, we are going to reduce your money?"

Mr. RASPEN. Yes. In one case that we looked at, there was a consortium of Indian tribes which was not refunded as a prime sponsor. Labor has taken the funding away from it and made them part of another prime sponsor.

So, in that case they had taken sanctions. How widespread it is, I do not know.

Mrs. SNOWE. But that is only one example that you have run across?

Mr. RASPEN. Yes.

Mr. EGAN. In doing our review we did not really look at that very type of situation. There may be numerous other situations where they have taken sanctions against subsponsors.

Mrs. SNOWE. I see.

Thank you.

Mrs. COLLINS. I have just a few quick questions.

Do you happen to know in this particular instance of the plugged figure of almost one-half million dollars, whether that accounting firm has been used by the same subgrantee again?

Mr. ULANS. That firm was contracted by the Department of Labor.

Mrs. COLLINS. Does the Department of Labor still use that firm?

Mr. ULANS. I do not know. I know that labor was using them at the same time to perform other audits.

Mrs. COLLINS. Would you know if other flagrant misapplications of accounting principles were done?

Mr. ULANS. We reviewed one of the audits done by the same firm. There were not some of the gross errors that we found in this one.

We did find an improper opinion. When we spoke with the partner of the CPA firm, he told us that the Department of Labor would not accept an adverse opinion.

Mr. BUTLER. What do you hire an auditor for?

Mrs. COLLINS. Yes.

Thank you very much. We will pursue this further tomorrow.

On page 14 of your prepared statement, Mr. Egan, you state that Labor must see that strong internal controls exist throughout its organizations, which obviously it does not.

One of the newer control devices is the independent monitoring units that is required of each sponsor.

What is your opinion on how that is working, if it is working?

Mr. EGAN. I think Mr. Backhus can answer that.

Mr. BACKHUS. At the time at our review, the units were being established. However, we noted that they generally are not staffed with individuals who have the knowledge and background and education in fiscal matters and internal control.

Consequently, or as a result, they concentrated on program accomplishments to the detriment of its effectiveness, I think.

I think it is important that they have someone within the IMU that has the knowledge of internal control.

Mrs. COLLINS. Do you need any additional regulations piled on top of the ones you already have that calls for the proper enforcing of this particular kind of unit?

Mr. BACKHUS. It is already in the regulations under fiscal accountability and control. It has to be evaluated.

Mrs. COLLINS. Thank you.

Mr. Butler?

Mr. BUTLER. I would like to know this. What would you consider to be specific indications that we should look to for showing that

proper emphasis has been attained on internal controls for fraud prevention?

Mr. EGAN. I think at the outset we have to get from the top level of Labor, at the Secretary level, all the way down, a strong commitment in terms of fiscal management of organizations.

I think we have to look toward audit and investigation and staff them up. I think we have to force the issue of unresolved audit findings. I think we have to strengthen that audit concept.

We also need to make it abundantly clear to the Federal representatives that they have a responsibility. I think the witnesses this morning testified that they have a contracting officer who comes down.

We have to insure that type of liaison exists.

I can recall a job we did a couple of years ago. It is somewhat fuzzy in my mind. But we went up to do an audit of an organization that was CETA funded. This was the first time that organization had ever seen a Federal representative.

How can we expect these subgrantees of organizations that are trying to do the job in terms of programs and how can we be assured they are going to have strong internal controls? They do not even know what that means unless we provide that type of guidance.

That is very, very important, I think, from the Federal establishment all the way down that strong internal controls and financial management controls of organizations exists.

In order to get this money out to where it belongs, we have to cut out the middle management and get it out where the people can see the benefits.

Mr. BUTLER. Does the statute require a Federal representative from each prime sponsor? How does that work?

Mr. BACKHUS. I think each Federal representative has many, many prime sponsors that he is responsible for.

Mr. BUTLER. Yes; but each prime sponsor has a designated Federal representative; is that right?

Mr. BACKHUS. Yes, sir.

Mr. BUTLER. Is there some liaison? Is there one person who has the responsibility to contact?

Mr. EGAN. One observation I have is this. If we are going to go the route of the CETA organization, rather than Labor contracting with 50,000 subsponsors, we are going to go to an organization where we call primes around the country. We give that money to 460 prime sponsors.

I think those prime sponsors have a responsibility. They are taking this money, although they are not spending much in terms of themselves. About 90 percent of all the funds go to subgrantees.

I think they have a responsibility to the Federal Government by taking those funds. I think they need to look at their records and their controls.

It is very easy. Why should they control it? "If they give me my money every year, I just dole it back out. Why should I have strong internal controls?"

You have to look at what we can do in terms of sanctions against prime sponsors in terms of if they do not meet the commitments of the Federal Government.

If their subsponsors do not make the commitment to the Federal Government, then what sanctions can we take against both the primes and subs in terms of getting better internal controls.

Mr. BUTLER. So if we were looking at indicators that the prime sponsors were addressing the problem of internal controls better, and the Department of Labor was encouraging them to do this, one index would be the indication of sanctions; is that what you are saying?

Mr. EGAN. I think it is part of it; yes.

Mr. BUTLER. And I judge from the testimony and the questions from Mrs. Snowe that you are aware of very few instances in which the Department has imposed sanctions from prime sponsors?

Mr. EGAN. Unless it is out and out disallowances of certain costs or what have you. In terms of internal control, how do you measure it?

We did this limited sample of subgrantees. How do you measure when you have 50,000 or 55,000 subsponsors? How do you measure whether our dollar is being spent properly?

The only way you can measure it is to make sure there are strong internal controls. You cannot do an audit of that in depth all the time.

You have to have that in front—fraud prevention, not fraud detection. Fraud prevention is where it is. You have to have it built into your programs, into your management. The idea of prevention of fraud, waste and abuse has to be built in.

It is too late. Some of these subsponsors are out of business. You have to sanction to try to get the money back. Who do you get the money back from? He might not have any money to pay you back for these calculators. He does not have any money.

It is poor management on his part. If you had the prevention up front, you would be a lot better off in terms of where our dollars are spent.

Mr. BUTLER. Let us go back to the Federal representative one more time.

If the Federal representative would simply report on a regular basis as to whether an audit has been performed or not, or would just simply go down and count the subgrantees and count the subgrantees that have been audited and make a regular report on that; would not just that little bit help?

Mr. EGAN. I believe it would. I also believe there are reports right now being sent in my subsponsors. If those reports alone were reviewed on the financial statements it would indicate some questions that might arise with the Federal representatives.

Mr. BUTLER. Is it your judgment that the Department is not even taking an inventory on the number of audits on a regular basis or anything of that nature; is that correct?

Mr. ULANS. Well, at the subgrantee level, it varies from regional office to regional office. We found at one of the regional offices of Labor that very little was being done in the way of a review or accounting process to simply account for the subgrantee audits that came in.

Mr. EGAN. In that situation, this regional office was not even aware of the number of audits that needed to be done.

Mr. BUTLER. Did they look at the audits?

Mr. EGAN. They had a quality assurance program, which we have already gone into, which was not all that it should be. They do have a quality assurance program in their 10 regional offices. If it works properly, it should ferret out the problems of quality of audits.

Mr. BUTLER. So if a subgrantee has an audit, an external audit, we are reasonably assured that it is going to get some kind of review; correct?

Mr. EGAN. Yes; but here again you will not know the number of audits that you are supposed to be getting.

Mr. BUTLER. I see.

Mr. EGAN. When I should be sending you 14 audit reports, maybe I am only sending you 10.

Mr. BUTLER. Maybe they are scared to ask that question.

Thank you.

Mrs. COLLINS. Mrs. Snowe?

Mrs. SNOWE. Thank you.

Just to followup on that question, in this report it states that there was some difficulty integrating the subgrantees audit with the Department of Labor's audit. Did you run into that problem? Did you have any idea about it?

Mr. RASPEN. Yes. We ran into the same problem. The periods of audit did not coincide. For example, in some cases we find the prime sponsor being audited during one period of time and the subsponsors being audited at another.

So, you have no true picture of what the outlook is like.

Mrs. SNOWE. There is a good system of internal controls. Do you think that any of these things could be prevented, like the fraud and abuse that you indicated in your testimony?

Mr. EGAN. There is no question about it. I think, in fact, the internal controls regulations are fairly well defined. I think if the word would filter down to our primes and our subsponsors, that there is going to be implementation of this and a close look at it, I think we would probably see a diminishing of the types of examples you see there. I think those examples are pretty flagrant to me.

I know as a taxpayer I just cannot believe there are even things like that. I am not quite sure I would believe everything in the statement. It is just shocking.

Mrs. SNOWE. It certainly is.

Mr. RASPEN. Labor is aware of the deficiences and internal controls. For example, 2 weeks ago we told you that the CSA reports year after year say that their internal controls of the grantees are weak. It is the same of Labor.

Labor knows about it. It just is that the action is not taken to make the grantees correct his system.

Mrs. COLLINS. Thank you gentlemen for appearing today.

I was just saying to the staff that I hear a real concern in your voices. I am glad GAO is concerned about the wasteful misuse of taxpayer's dollars as we are.

It is our intention to ask Labor some very specific questions tomorrow about these matters.

Again, thank you for coming and providing us with the kind of dedication that you exercise in all phases of the spending of my money and yours.

Mr. EGAN. You are welcome.

Mrs. COLLINS. The subcommittee is adjourned.

[Mr. Egan's prepared statement follows:]

UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

FOR RELEASE ON DELIVERY
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STATEMENT OF

GEORGE EGAN, ASSOCIATE DIRECTOR

FINANCIAL AND GENERAL MANAGEMENT STUDIES DIVISION

BEFORE THE SUBCOMMITTEE ON

MANPOWER AND HOUSING

COMMITTEE ON GOVERNMENT OPERATIONS

HOUSE OF REPRESENTATIVES

CONCERNING DEPARTMENT OF LABOR AUDITS OF COMPREHENSIVE

EMPLOYMENT AND TRAINING ACT (CETA) GRANTEES

Madam Chairwoman and Members of the Committee:

We are pleased to be with you today to discuss the results to date of two reviews which involve the Department of Labor and selected CETA grantees. With me today are Robert Raspen, Gregory Ulans, and Stephen Backhus of the Financial and General Management Studies Division.

The first review I will discuss was performed to determine how the Department of Labor carries out its CETA audit responsibilities. As part of that review, we evaluated the quality of the audits that had been performed at 13 prime sponsors. During this review we found that billions of dollars of CETA funds have not been audited. Furthermore, we found that the audits

we tested were not always in conformance with Comptroller General audit standards.

When the preliminary results of this review showed that many CETA grantees had not been audited, we decided to do a vulnerability assessment of Labor and its grantees. The purpose of this latter review was to determine if Labor and its grantees are vulnerable to misuse and abuse of Government funds. This study concentrated on whether Labor has an adequate system of internal controls. As you know, good internal controls are the most effective deterrent to fraud, embezzlement, and related illegal acts. Internal controls are the body of checks and balances which organizations set up to spread work out in such a way that one person or function checks on what another person or function does. These checks detect errors and make fraud and related acts more difficult. Good internal control by Labor is extremely important because the agency and its grantees annually handle about $10.6 billion in CETA funds. As a result of this review, we concluded that the CETA program is more vulnerable to fraud, abuse, and error than it should be because some essential internal controls are lacking at all levels of the CETA organization. As an attachment to my statement are examples of what has happened in the CETA program as a result of weak internal controls.

Now I would like to discuss the results of both assignments in some detail. I will start with our review of Labor's audit coverage of CETA funds.

Audit is a basic control the Government has to prevent unauthorized expenditures by its grantees. When effectively used, the audit function can provide management with information on how to make the operations of the program more economical and efficient as well as being the basic mechanism to keep funds from being spent improperly. Labor has benefitted from its audits of CETA grant recipients. Some of its recent audits have disclosed significant findings which are having an important effect on the program.

However, Labor's record in accomplishing audits of the prime sponsors has varied significantly around the country. Overall, fewer than half the required audits have been performed. Furthermore, our limited sample of those audits indicates a need for improving their quality. Finally, Labor has not had an effective system for controlling and summarizing subgrantee audits. The principal reason for Labor's inability to accomplish more audits has been a lack of audit resources.

AUDIT COVERAGE

CETA regulations in existence at the time of our review required the Secretary of Labor to audit or arrange for audits of grantees, subgrantees, and contractors annually but not less than once every two years. If these regulations had been complied with, every original CETA prime sponsor and subsponsor would have been audited at least twice by now. We found, however, that there were still prime sponsors that had not been audited for the first time as of September 30, 1979.

Between December 1973 and October 1978, the period covered by our review, over $26 billion was spent by about 460 prime sponsors and thousands of subgrantees. Only 320 of the prime sponsors had been audited as of September 30, 1978.

In one of Labor's 10 geographic regions, only 24 of 105 prime sponsors had been audited during the period covered by this review. The 81 prime sponsors which were not audited had expended $2.4 billion.

At a second regional office which is responsible for auditing 45 prime sponsors, we found that as of September 1978, 22 of the prime sponsors had not been audited since inception of the CETA program. Furthermore, seven of the audits which were performed were limited scope audits which, according to Labor officials, do not satisfy the audit requirements of the CETA regulations.

In terms of expenditures audited, this means that about $1.36 billion of the $1.7 billion granted to the prime sponsors had not been audited at the prime sponsor level. Of the funds passed on to subsponsors, only about $300 million had been audited at the subgrantee level during fiscal years 1977 and 1978. Inadequate records prevented us from going back before 1977. Thus, with the records available to us, over $1 billion of $1.7 billion in CETA expenditures had not been audited in this region.

Since that time of our review, Labor reports completing an additional 111 prime sponsor audits nationwide during

the year ending September 30, 1979. This brings the total prime sponsors audited to 431. However, as previously stated all prime sponsors should have been audited at least twice by now.

AUDIT QUALITY

We reviewed some of the audits that have been accomplished under the CETA program to evaluate the quality and thoroughness of the work performed. We found that audits of prime sponsors (1) are obviously not always timely, (2) do not address management responsibilities over subgrants and contracts, and (3) do not have all the characteristics of a quality audit.

We reviewed Labor's audit of one prime sponsor that received $28.4 million of CETA funds over a 1 1/2-year period. Of this amount $27.7 million was transferred to subsponsors. Thus Labor's audit covered only $694,000 of administrative expenses and was void of any analysis of the $27.7 million administered by subgrantees.

The most serious case we found involved an audit of a 25-month period and $30 million of CETA funds. We found that

--the grantee records did not support the reported expenditures yet this was not disclosed in the audit report.

--the auditors were unable to reconcile the grantee's cash receipts with the final cash balance. Rather than report the discrepancy, the auditors inserted a $448,226 "plug" amount to obtain a balance.

--the auditors made a $576,000 error in computing the amount of administrative costs to be allocated to the grantee. The workpaper where the error was made showed no indication of supervisory review.

--the auditors did not render an adverse opinion on the grantee's financial statements although they admitted to us that an adverse opinion was warranted.

AUDIT RESOURCES

Labor has had difficulty controlling the whole audit process largely because the Inspector General's Office has not had adequate resources and the record indicates that Department of Labor has historically not shown a commitment to the audit process.

When the original CETA legislation was passed in December 1973, Labor had 144 professional auditors but by June 1974, when the first increment of CETA funds reached prime sponsors, the professional audit staff had been reduced to 106 positions. In fiscal 1975, the Director of the internal audit staff requested 30 additional positions. However, reallocations within the Department added only 5 audit positions.

By the end of fiscal 1976 when the first two-year audit period was ending, requests for more staff never got past Labor's own budget review process. The staff level remained at 111 until fiscal 1977 when the audit staff requested 26 more positions. Initially, the Department took no action

on this request; however, a supplemental request of 20 additional positions was submitted later that year and approved by the Department, the OMB and the Congress. One position was designated for direct audit support and 19 were added to the staff as auditors.

In fiscal 1978, an additional 29 positions were requested by the audit staff. The Department requested 20 positions which were approved by OMB and Congress. These 20 positions were assigned to the newly established Office of Special Investigations, which later absorbed the audit group and subsequently became the Office of Inspector General. In addition, 6 positions were transferred out of audit as a result of decisions within the Department leaving 124 auditors as of July 1979.

In fiscal 1980 the Office of Inspector General has been authorized by Congress to increase its staff by 132 positions. The audit function has been designated by the Inspector General to receive 59 of these positions which have been largely dedicated to CETA audits.

VULNERABILITY AUDIT

I would now like to discuss the preliminary results of our second audit. This effort is a vulnerability assessment of Labor headquarters and selected regional offices and grantees. In making this vulnerability assessment, we were particularly interested in determining whether Labor as a whole had an adequate system of internal controls at all levels of its organization that would provide adequate protection against

fraud, theft and abuse of Federal funds and assets purchased with Federal funds. In this regard, we did not concentrate on determining how much fraud has occured but instead focused on how such illegal acts could occur as a result of internal control weaknesses. We were interested in identifying areas where Labor is vulnerable to abuse or error.

In making this assessment, work was performed at Labor headquarters, four regional offices, five CETA prime sponsors, and four subgrantees. We also reviewed numerous reports pertaining to Labor's investigations of alleged fraud and waste in the CETA program and as I mentioned earlier, have included examples of several findings as an attachment to my statement. I will now summarize some of the internal control weaknesses we noted during this review and further describe what has or can happen as a result of these weaknesses. In reviewing the administrative activities of Labor and its regional offices, which support CETA as well as all other Labor programs we found that:

--Procurement invoices were approved for payment and later paid without purchase orders or other supporting documentation to ensure validity or without checking to see if the bill had already been paid. As a result, duplicate payments have occurred. For example, one vendor who submitted duplicate invoices received duplicate payments totalling $6,100. This vendor

is currently under investigation by Labor. Furthermore, departmental records indicated that 148 duplicate checks have been returned by vendors and contractors between January 1976 and May 1979 totaling over $198,000. It is possible that Labor has issued many other duplicate checks that have been retained by vendors such as the one I just described.

--Employee travel advances were not being sufficiently reviewed. Such reviews are important, especially to ensure that employees who quit their jobs have repaid their advances. Our limited test of travel advances dating back to 1976 revealed that more than 200 Labor employees have left the agency without paying advances that were outstanding at the time of their departure. These advances totalled more than $70,000. As our test was limited it is likely that many more similar instances have occured.

--Payroll corrections and the resulting supplemental payroll were not being sufficiently reviewed at the time of our audit. As a result, one Labor employee, over 18 pay periods, fraudulently obtained $13,000 by adding his and other names and amounts of money to supplemental payroll registers. The individual was eventually caught by Treasury. Labor, upon learning this, changed and corrected its supplemental payroll system and has taken action against the individuals involved.

--Labor's failure to seek competitive bids resulted in the award of a 12 month, sole source contract for $99,985 of CETA Title III funds (subsequently extended and increased an additional $100,000) to a contractor whose qualifications and expertise were questionable at best. The returns on this procurement were described by Labor officials as being of inferior quality; of only limited value; incomplete; and late.

--Equipment purchased with Federal funds at Labor headquarters was not being physically inventoried annually by persons other than those responsible for maintaining property records. Eight of 29 items we selected for review from property records, such as calculators and typewriters, could not be found. Labor officals assured us that the missing items would be investigated.

Regarding the CETA program specifically, we found internal controls to be unacceptably weak at grantees despite numerous Labor regulations and publications which provide internal control guidance and requirements. These conditions make the grantees very vulnerable to illegal acts and unintentional errors and reinforces the importance of conducting regular audits of their operations to assure that proper internal controls are in place over CETA funds. For example we found:

--Prime sponsors were not reviewing subgrantee requests for cash or subgrantee cash balances and as a result

excessive amounts of CETA money was being maintained by subgrantees. For example, one subgrantee, over the 6-month period we reviewed, had from 4 to 7 times more cash than it was permitted (from $372,500 to $728,890); another had excessive balances ranging from $78,000 to $263,000 over the 3-month period we checked. And a third received a cash advance of $1.2 million which represented enough money to last 2 months.

--One of these subgrantees committed $25,000 of its CETA money to purchase 1,024 water meters for installation in private homes. Officials attempted to justify this purchase by explaining that it was training 12 CETA participants to install and read the meters. The purchase was not detected by the prime sponsor because it did not have an internal control procedure requiring that purchases over a certain dollar limit be approved. We were successful in stopping the use of CETA money to purchase 500 of these meters ($12,475) because they had not been delivered or paid for at the time of our review. However, the remaining 524 water meters ($13,086) were delivered and paid for in 1978.

--This same subgrantee used $329,000 of its excess CETA cash to finance its city payroll for one week. Over the ensuing 5-week period, the CETA payroll was paid by the city thereby liquidating this "debt." An erroneous

withdrawal of funds from the CETA account, caused by insufficient supervisory reviews of withdrawals was the reason for this transaction.

--None of the prime sponsors or sub-grantees we visited sufficiently verified CETA participant eligibility data provided on applications for enrollment into the CETA program. This creates an exceptionally high risk that ineligible persons are being trained and paid at the expense of needy people. n fact, one subgrantee did no verification at all. Furthermore, CETA participant files often did not contain sufficient information to determine eligibility. For example 30 percent of 114 applications reviewed at one subgrantee did not contain any or sufficient information on the applicants previous income to determine if they were eligible. The importance of verifying eligibility data is evidenced by a Labor study which estimates that as many as 10 percent of CETA participants nationwide do no qualify for the program.

--CETA participant's time and attendance reports were often not reviewed by supervisors or payroll personnel at several of the prime sponsors and sub-grantees we visited. This resulted in (1) regularly paying one CETA employee for 80 hours of work each pay period when this person worked only 60 hours--overpayments totaling $1,445 over 10 months; (2) participants being

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paid for 8-hour work days when they worked only half days; (3) paying a suspended employee for 35 hours of work never performed; and (4) inaccurate leave balances.

--Several grantees did not systematically approve, process, validate, pay, and record travel transactions. For example, one grantee did not always require travel orders or travel vouchers but rather paid fixed monthly travel allowances of $5 to $25 to employees. The lack of documentation makes it impossible to audit these disbursements and to establish their validity.

--Grantees did not always conduct annual physical inventories of property or investigate noted discrepancies. Furthermore, they frequently removed items from inventory records without explanation and sometimes expensed equipment rather than inventorying it. For example, one prime sponsor, upon conducting a physical inventory, discovered 19 items valued at $3,260 missing from its inventory but did not investigate the loss. Among the missing items were four typewriters, one dictating machine, a pocket calculator, and a duplicating machine--all having personal uses.

These examples typify the kinds of weaknesses we found in payroll, purchasing, travel, cash management, property management and participant eligibility at nearly every location

visited during our vulnerability assessment. When considered in total, this led us to conclude that the CETA program is very vulnerable to fraud, abuse, and error and that internal controls at all levels of the CETA program need to be improved. We believe that Labor must see that strong internal controls exist throughout its organizations.

The final area I would like to discuss, concerns the audit function. I mentioned earlier that auditing is a basic control the Government has to prevent unauthorized expenditures by its grantees. When audits do disclose illegal, erroneous or questionable expenditures it is important that any misspent funds be recovered in a timely manner. In an October 25, 1978, report to Congress entitled "More Effective Action Is Needed On Auditors' Findings -- Millions Can Be Collected Or Saved (FGMSD-79-3), we reported lengthy delays in resolving audit findings at many Federal agencies including Labor. As part of our vulnerability assessment we checked to see whether Labor has made progress in terms of reducing the length of time to resolve audit findings involving questioned costs. While some improvements have been made, there are still considerable delays. As of September 30, 1979, for example, Labor reported that it had a total of 810 unresolved CETA audits involving $172.3 million. Of these 524 reports (65 percent) were one year or older and involved $78.3 million (45 percent) of the total unresolved questioned costs.

We also noted that in some cases audits disclosed numerous internal control weaknesses at grantees which went uncorrected after the audit even though the grantee promised to implement the auditor's recommendations for improvement. If audits are to be effective, Labor must assure that the grantees correct any deficiences identified in an audit.

This concludes my statement and I will try to answer any questions you may have.

ATTACHMENT 1

OTHER ABUSES AND ERRORS

— 38 duplicate travel advances resulting from inadequate review procedures at Labor, were discovered in our limited test totaling about $14,000.

— A 16mm movie projector valued at $383 was missing from one regional office's inventory. No record of a property transfer existed and the projector is presumed lost or stolen.

— One imprest fund at ETA headquarters received 2 duplicate checks totaling $5,526 as "replenishment" for the fund. Reimbursement vouchers were not cancelled when checks were received to replenish the fund.

— Another imprest fund at Labor was "short" some $8,000. This fund was being audited by Labor auditors at the time of our review.

— Cash collections were not deposited promptly at one Labor regional office. For example, it took 5 days to deposit a $135,863 check and 6 days for a $68,560 check although Labor procedures call for daily deposits of receipts totaling $1,000 or more.

— A relative of one subgrantee Director who was ineligible for the CETA program, was placed in the program and paid $9,204 in wages over a 1-year period.

— A CETA participant received pay for 8 months totaling $5,800 after termination from the program.

ATTACHMENT 1

- Participant required to pay $1,300 to a sub-grantee for enrollment in the CETA program.
- Payroll advance of $5,500 was given to a sub-grantee when its biweekly payroll averaged $1,300.
- Prime sponsor permitted a sub-grantee to lease 182 vehicles (e.g., dump trucks, vans, buses, trucks, pickups, roller) with CETA funds without obtaining required approval from Labor. The annual lease cost was $353,725.
- $2,495 used for personal expenses (motel, liquor, clothing, shoes, etc.) and categorized as employee morale expense.
- $2,850 used to pay for a wedding and reception on the Queen Mary and categorized as employee morale expense.
- $4,734 for the lease of an Audi and a Porsche (10 months).
- $1,485 for employee Christmas gift certificates and categorized as employee morale expense.
- One Executive Director used $15,000 to provide loans to friends.
- Chief timekeeper stole or forged several CETA participant checks totaling $1,294.
- Supervisor falsified time sheets of CETA participants who received payments totaling $1,001 for hours not worked.
- Participant obtained $100 as a security deposit on an apartment never rented.
- Over $100,000 of CETA funds was used to purchase land and erect a house and to pay a consultant who designed the house.

ATTACHMENT 1

— Unsupported CETA participant payroll disbursements of $204,158 in CETA funds were made by one person preparing and distributing payroll.

— $964 payroll overpayment caused by falsified time sheets which weren't reviewed by a supervisor.

— A CETA supervisor submitted fictitious employment forms and payroll documents totaling about $24,000. Reviews were not made and paychecks were sent to the supervisor.

— Chief timekeeper falsified time and attendance reports of CETA participants totaling $3,019.

— Creation of three "ghost" employees by a prime sponsor program developer involving $12,264.

— Hiring ineligible participants and paying them a total of $33,551.

— Subgrantee requiring CETA participants to pay $75 each per month for office supplies totaling $4,500.

— Hired ineligible participants by falsifying records and claiming reimbursement of $7,899.

— $48,758 paid to a subcontractor for training not provided, and for participant salaries not earned.

— Paying two regular employees a total of $300 with CETA grant funds.

— Requiring a participant to give a kickback of $150 as a condition for job placement.

— Creation of "ghost" employees totaling $1,784.

ATTACHMENT 1

— $14,000 in property was missing (and presumably stolen) but not investigated by either the subgrantee or the prime sponsor.

— Over $500 of equipment was missing from one such grantee's inventory including a jig saw and a skill saw valued at $55 and $67 respectively. Investigation into their disappearance were not performed, nor were the items reported as missing.

— During a visit to one subgrantee, we saw a CETA supervisor watching a card game taking place among other city employees, while 9 CETA participants were laboring over their assigned jobs.

— A contractor used $53,000 of CETA Title I funds for payment of wages to non-CETA employees engaged in construction of new buildings not used for CETA programs.

— Five employees of a prime sponsor were paid $26,543 in total for which there was no evidence of any work performed.

— The Administrative Assistant of one prime sponsor's Director was paid $12,506 with CETA funds although she was not eligible for the CETA program.

— Excess cash balances at two subgrantees totaling $2,750 and $1,500 respectively. In both cases these amounts represented almost one half of average monthly expenditures.

[Whereupon, at 11:56 a.m., the subcommittee adjourned, to reconvene at 10 a.m., Wednesday, May 21, 1980.]

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CETA'S VULNERABILITY TO FRAUD AND ABUSE

WEDNESDAY, MAY 21, 1980

HOUSE OF REPRESENTATIVES,
MANPOWER AND HOUSING SUBCOMMITTEE
OF THE COMMITTEE ON GOVERNMENT OPERATIONS,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:10 a.m., in room 2203, Rayburn House Office Building, Hon. Cardiss Collins (chairwoman of the subcommittee) presiding.

Present: Representatives Cardiss Collins, Andrew Maguire, Wayne Grisham, M. Caldwell Butler, and Olympia J. Snowe.

Also present: Joseph C. Luman, staff director; Richard Grawey, counsel; Sharon Smith, clerk; and Stephen Blackistone, minority professional staff, Committee on Government Operations.

Mrs. COLLINS. Good morning. The Government Operations Subcommittee on Manpower and Housing will come to order at this time.

Yesterday the subcommittee heard testimony from a successful CETA subcontractor in the District of Columbia and from the General Accounting Office.

GAO concluded, on the basis of its survey of different layers in the CETA system, that the system can be abused. GAO gave us a list of abuses which they believe would have been prevented had the CETA system had sufficient internal controls.

Today we have before us several officials of the Labor Department. Some of these witnesses are new to the jobs they now hold and we are quite interested in the plans they have for improving the effectiveness of departmental oversight. We see a need for significant improvement.

On November 20 this committee issued a report concluding that the Department's administration of CETA is marked by too much attention to getting the grant money out and insufficient attention to monitoring what happens to it. On May 15 we received the Department's response. The Secretary agreed with the general tone of the report and pointed to a number of initiatives that the Department has underway to upgrade the monitoring of CETA grantees.

Although the Secretary recognized the need for change, the Department has fallen short in its administration of CETA and in its responsiveness to those of us in Congress whose responsibility includes oversight. Despite my request in the invitation letter, the Department's statement was not received until late yesterday afternoon. The Secretary's response to our report, received May 15, was requested by January 20 and during the intervening period we

received no indication of why it took so long to respond to the report.

In the past month one of the regional administrators in the Department of Labor instructed his staff members not to give information to members of this subcommittee's staff. He told them that all requests were to be funneled to his office. Obviously, this creates a bottleneck and obstructs the subcommittee in its investigative work.

Over the past years we have had recurring problems with the Department of Labor and its responsiveness to requests for material, furnishing copies of statements for subcommittee hearings, and its reaction to recommendations for corrective actions by this subcommittee and by the General Accounting Office.

Although the Department's response to our latest report is in a cooperative light, these other events reenforce our concern that the Labor Department is not reacting in the cooperative fashion we think necessary of an executive agency when recommendations for improvements are addressed to it by the Congress or an arm of the Congress.

We are particularly interested today in the corrective actions being taken by the Department. We know there have been changes made in the Department's organization and in the way it deals with prime sponsors. The major issue is whether these changes are going to lead to lasting reforms in a system that to date has not been sufficiently responsive to the need to safeguard Federal funds.

We know that the system of audits does not cover all prime sponsors, much less all subgrantees, and that some of the audits themselves are poorly prepared. We know that the Department in the past has failed to enforce sufficient discipline on its grantees and that millions—in fact, billions—of dollars of audit findings have gathered dust on the shelf with the result that money was not paid back in cases where it should have been. The question is whether this is going to change.

I would like to reiterate the recommendations from the committee's report that the Labor Department devote high level attention and emphasis to monitoring the spending of CETA moneys. In this time of increasing unemployment, it is vitally important that these funds benefit those intended by the Congress.

We believe that the record to date indicates that too little concern has been shown to whether the money is reaching the beneficiaries and too little action has been taken against those who have wasted CETA funds. The cases cited yesterday to us by the General Accounting Office, many of which were uncovered by the Department of Labor itself, indicate that efforts are needed to tighten up the system. We look for actions to back up the promises of change.

Our witness this morning is Mr. Roberts T. Jones, who is the Administrator of the Office of Management Assistance of the Employment and Training Administration of the Department of Labor.

Mr. Jones, will you tell us by whom you are accompanied please.

STATEMENT OF ROBERTS T. JONES, ADMINISTRATOR, OFFICE OF MANAGEMENT ASSISTANCE, EMPLOYMENT AND TRAINING ADMINISTRATION, DEPARTMENT OF LABOR; ACCOMPANIED BY THOMAS KOMAREK, COMPTROLLER; NATHANIEL BACCUS, ASSOCIATE SOLICITOR; EDWARD STEPNICK, ASSISTANT INSPECTOR GENERAL FOR AUDIT; AND A. M. (MAC) STATHAM, ASSISTANT INSPECTOR GENERAL FOR INVESTIGATIONS

Mr. JONES. Madam Chairwoman and members of the subcommittee, I appreciate this opportunity to appear before you to discuss the subcommittee's concerns about the administration of the Comprehensive Employment and Training Act program by the Department of Labor.

First, I would like to introduce my colleagues: Tom Komarek, on my right, is the Comptroller for the Employment and Training Administration; from the Office of Inspector General, on my far left, Mac Statham, who is Assistant Inspector General for Investigations; Ed Stepnick, who is Assistant Inspector General for Audit; and on my far right is Nathaniel Baccus, who is Associate Solicitor for Employment and Training Legal Services.

In my prepared statement I would like to briefly address each of the topics listed in your letter of invitation, after which my colleagues and I will be pleased to respond in more detail to your specific concerns. However, before turning to those topics, I would like to mention that the Secretary has approved the recommendations made by a Department of Labor Audit Review Committee. The committee was formed to make recommendations to deal with problems that have been identified with our audit process, including problems raised by this subcommittee. For example, to deal with the large backlog of unresolved audits, each agency in the Department will provide a new time-phased plan for outstanding audit resolution and monthly reports will be sent to the Secretary's Management Review Committee. Other important recommendations are designed to improve and expedite audit report development and resolution and to insure followthrough on accepted recommendations. For example, a new system for policy resolution between the Office of the Inspector General and the Employment and Training Administration will be established.

Copies of that report, Madam Chairwoman, can be made available to the committee today or at any point that you would like to review it.

I would now like to turn to the specific topics listed in your letter of invitation, beginning with prime sponsor expertise in subcontracting for CETA services.

1. PRIME SPONSOR EXPERTISE IN SUBCONTRACTING FOR CETA SERVICES

As one might expect, prime sponsor abilities in this area vary. Generally the Department believes that the capabilities of the prime sponsors have increased greatly in this area in the years since CETA was first enacted. Prior to CETA some local jurisdictions had little, if any, experience in contracting for anything other than routine administrative purchases. This is no longer the case.

At the same time the Department believes that more needs to be done in this area. We have included subcontracting or subgrantees as one of the items in our annual assessment of prime sponsors. Where we find that a prime sponsor's procedures for entering into subcontracts for services are inappropriate or inadequate, corrective actions are required. These corrective actions may include specific changes to contracting purchases and the providing of technical assistance by the Department.

Also, our new Office of Management Assistance considers this area a high priority and is taking steps to increase both the expertise of the prime sponsor and of DOL staff in subcontracting for services procedures. This assistance will include special training classes which cover subcontracting procedures.

2. MONITORING AND AUDITING OF SUBCONTRACTS BY PRIME SPONSORS.

With respect to your second topic, the Department has already taken steps to improve the monitoring and auditing of subcontractors. As I just indicated, a review of the subcontracting activities is already one of the items covered in our annual assessment of prime sponsors. In addition, one of the major responsibilities of the new independent monitoring units (IMU's), established pursuant to the 1978 reauthorization of CETA, is the monitoring of all activities carried out by the prime sponsors, including the monitoring of subcontractors and subgrantees. During its monitoring of prime sponsors the Department will also be looking at and following up on the quality of the work of IMU's, the prime sponsor's responses to IMU findings, as well as, from time to time, conducting Federal onsite monitoring of subcontractors and subgrantees.

With respect to audits, new procedures recently put in place require prime sponsors to conduct audits on a sample of all subcontracts each year. The Department will be reviewing local arrangements during the fiscal year 1981 grant approval process to assure that such audits are carried out and, most importantly, to assure that any problems identified are in fact corrected.

3. REVIEW OF SUBCONTRACTOR AUDITS BY ETA

A third area raised in your letter of invitation relates to the review of subcontractor audits by the Employment and Training Administration. The procedures for dealing with subcontractor audits have been an evolving process. Our first specific instruction to the regions was on June 8, 1978, stating that "* * * the grant officer would not prepare a D. & F. but would require the grantee to inform him/her what action is being taken. The grant officer would attempt to resolve any remaining questions. Although the grant officer is not directly responsible for a subgrant, the grant officer is responsible for the commitment and obligation of grant funds. Each grantee is responsible and accountable for expenditure of grant funds. The DOL grant officer may offer to help resolve problems, but the final decision rests with the grantee who in turn, must satisfy the grant officer's questions.* * *"

This instruction was superseded by another instruction in January 1980, spelling out in greater detail the steps that are to be

taken in processing subgrant audits. Essentially, the steps include receiving significant reports from the Office of the Inspector General, reviewing those reports, reviewing grantee actions, verifying major uncorrected problems, and taking appropriate action.

The specific actions open to a grant officer are:

One, to request that the grantee take corrective action and note the sanctions that will be employed if the deficiency is not corrected.

Two, to take no action if the grantee disallows the cost and makes repayment.

Three, to take action against the grantee if it follows correct procedures but fails to collect the debt.

Four, to issue an initial determination to disallow costs if a grantee allows an unallowable cost.

Five, to issue an initial determination with sanctions noted and demanding corrective action if a grantee's audit resolution system is found inadequate.

Six, to credit recovered funds to the current letter of credit.

The rationale for this approach is that the grantee, rather than the DOL grant officer, is in a better position to resolve subgrant audits. Privity exists between the grantee and its subgrantees and subcontractors. There are about 50,000 subgrantees and subcontractors receiving moneys from prime sponsors. The unified audit will provide closer scrutiny of subgrantees and subcontractors and will identify those which should be monitored for possible investigation.

Also, CETA allows us to deal with extremely critical situations. Where such a situation exists, we would take positive action.

4. THE SLOW RESOLUTION OF QUESTIONED COSTS BY ETA

Turning to the issue of resolving questioned costs, ETA has made substantial progress over the past 18 months in improving its record on timeliness of audit resolutions. During fiscal year 1979 we reduced audit backlogs from 1,420 on October 1, 1978, to 1,170 on October 1, 1979. Our fiscal year 1980 goal is to achieve a further 25-percent reduction. We are confident that we will achieve that goal this year.

The cause of the large audit backlog that had developed in fiscal year 1977 and fiscal year 1978 resulted primarily from ETA's need to focus its staff resources on achieving the economic stimulus buildup. Once this expansion had been achieved, we were able to devote a larger share of our staff resources to the audit resolution process. Our progress over the past 18 months reflects that effort.

Implementation of the recommendations of the Audit Review Committee should also assist us in further reducing the backlog of unresolved audits.

5. THE FAILURE OF ETA TO USE AUDIT FINDINGS TO CORRECT PRIME SPONSORS DEFICIENCIES

With regard to the fifth issue raised in your letter of invitation, the Department does not agree that it has failed to use audit findings to correct prime sponsors deficiencies. Careful consideration is given to all comments provided by the auditors. While for obvious reasons the Department is most concerned with the costs

questioned by the auditors, administrative findings also are considered and acted upon. It must be remembered that ETA's monitoring and assessment systems also identify and require corrective actions on administrative problems.

To assure that audit findings are handled consistently by all regions, the Department is in the process of issuing a national guide which provides guidelines and policies to be used in the preparation of findings and determinations which are prepared in response to audit reports.

The handling of audits is also a major component of the 1980–81 training program developed for grant officers and field representatives.

6. THE ALLOWABILITY OF TRAVEL AND ENTERTAINMENT EXPENDITURES BY PRIME SPONSORS AND SUBCONTRACTORS

On the issue of the allowability of travel and entertainment expenditures by prime sponsors and subcontractors, the CETA regulations carefully spell out what are and what are not allowable costs. It is clear that no travel can be charged against a CETA grant unless such travel was conducted by an authorized person on official CETA business. Any funds expended for travel which do not meet the above requirements will be disallowed.

In accordance with an Office of Management and Budget issuance, FMC 74–4, entertainment is not an allowable cost. In certain circumstances Federal regulations allow such things as meals served during the course of actual business meetings. However, we consider this a normal expense of doing business and not entertainment. Locally this would generally occur during business meetings of the prime sponsor planning councils.

7. PROGRESS ON UNIFIED AUDIT PROCEDURES, THE RESIDENT AUDIT CONCEPT, AND COORDINATED FEDERAL AUDITS

With respect to audit coverage, the Office of the Inspector General has made considerable progress in increasing, both qualitatively and quantitatively, its audit coverage of CETA prime sponsors. More specifically, the OIG has made significant progress during this fiscal year in improving audit coverage through the use of unified audits, residency audits, and coordinated Federal audits. It is also significant that the fiscal year 1981 audit work plan provides for audit coverage of more than 50 percent of the CETA prime sponsors.

By way of definition, a unified audit is an audit of a prime sponsor and a representative sample of the prime sponsor's subrecipients, which is performed under the control of or is coordinated by one organization. The audit of the prime sponsor and its subsponsors covers the same funding period and results in a comprehensive audit opinion of the entire operations of a prime sponsor. During the current fiscal year 32 unified audits are being conducted. For fiscal year 1981 we plan to increase the number to 75 unified audits.

An audit residency is an onsite presence of an auditor, either an OIG staff auditor or a public accountant under the direction of OIG staff. These auditors are assigned to a location on a relatively

continuous basis for the purpose of providing ongoing post audits. Residencies should permit more extensive reviews of the financial operations at these sites and better monitoring of audits of subgrantees. Audit residencies have been targeted at 17 of the largest and/or most problem prone prime sponsors. OIG has already begun to establish 15 of these residencies.

In general, our audit plan for fiscal year 1981 provides for a more comprehensive audit coverage than currently exists. Of the 473 CETA prime sponsors, 287 are included in our fiscal year 1981 work plan. These audits will be completed either by OIG auditors, CPA's under contract with the OIG, State and local auditors under contract with the OIG, or by auditors under contract with prime sponsors. The latter, grantee procured audits, are authorized by OMB Circular A-102 and recent CETA regulations. We also believe it is significant to note that the OIG in its current year's work plan provides for audit coverage of each CETA prime sponsor which has not been previously audited.

In addition to these audits, the OIG is also implementing on a limited scale coordinated Federal audits. Coordinated Federal audits have been targeted on CETA recipients which are also funded by other Federal agencies where there is a common interest in having a joint participation audit. A lead agency is usually assigned to coordinate the effort.

An example of a coordinated Federal audit is the audit of Bergen County, New Jersey's Community Action Program, which is being coordinated by the Department of Labor, the Community Services Administration, and the Department of Health and Human Services. This audit, which just began, was initiated at the request of this subcommittee. There are currently nine coordinated Federal audits on the fiscal year 1980 audit work plan.

8. THE USE OF CONSULTANTS AND ATTORNEYS BY PRIME SPONSORS

With respect to the eighth item in your letter of invitation, the CETA regulations establish guidelines for the use of attorneys or other associated services by prime sponsors. The prime sponsors must certify in writing that:

One, the payments are not unreasonable in relation to the fees charged by other contractors providing similar services.

Two, the services could not be competently provided without additional cost through employees of the prime sponsor or other available State of local government employees.

Prime sponsors may use consultants but, of course, must assure that such consultants are employed in accordance with existing procurement processes. Further, the CETA statute and regulations provide that consultants cannot be used to evaluate the success of any effort in which the same consultants have provided assistance.

9(A). ETA'S POLICY ON THE CONTINUED FUNDING OF SUBCONTRACTORS WITH QUESTIONABLE PERFORMANCE RECORDS

The ninth item in your letter of invitation concerns ETA's policies on:

One, the continued funding of subcontractors with questionable performance records, and two, the use of subcontractors after criminal indictment or conviction.

The Department of Labor expects prime sponsors to hold their subcontractors to all of the standards contained in CETA and the regulations. The prime sponsors are responsible for monitoring the compliance of their subcontractors and subgrantees. This means that where subcontractors or subgrantees are failing to perform, the prime sponsors must implement corrective actions. If the problems are still not corrected we expect the prime sponsor to find another subcontractor for the services. It must be remembered that poor performance by a subcontractor will also impact on the official performance rating the Department of Labor applies to the prime sponsor. If the Department, during its monitoring and assessment activities, determines that a prime sponsor's performance is unacceptable this may be due to poor performance by a subcontractor. In such a situation the Department could impose the necessary corrective actions on both the prime sponsor and the subcontractor or subgrantee.

Finally, where necessary and appropriate, the Department can terminate or suspend a grant in whole or in part where it determines that a prime sponsor has not taken appropriate action against its subcontractors or subgrantees.

9(B). ETA'S POLICY ON THE USE OF SUBCONTRACTORS AFTER CRIMINAL INDICTMENT OR CONVICTION

When this Department receives information with regard to allegations of wrongdoing, whether questionable activities, complaints, indictments, of convictions, our first priority is to protect the integrity of the program and its fiscal responsibility. Corrective action may include a change in management, personnel, or additional requirements to insure fiscal accountability.

Although we do not consider criminal indictment as a basis for precluding a prime sponsor from entering into a subcontract, it is necessary to give close scrutiny to the program safeguards affected by the allegations. From a legal standpoint, no action taken by this Department should prejudice the rights of an accused. In such cases, however, this Department would advise the prime sponsor to carefully review the performance of such a subcontractor or subgrantee to determine whether it has and will in the future be able to carry out the terms of its agreement with the prime sponsor, despite the possible impact of the allegations on its management and its ability to operate.

While we do not have a debarment list, at all times the Department is concerned that subcontractors and subgrantees provide the programs and services for which they have contracted in full compliance with CETA and the regulations and the approved overall grant plan of the prime sponsor. The Department considers it appropriate to review any activities carried out under its program where there are indications that a subcontractor or subgrantee is not performing in the manner anticipated by the subcontract. The Department would, of course, be prepared to require whatever action may be necessary based on the results of reviews including

the termination of the subcontract pursuant to section 106(e) of CETA.

Madam Chairwoman, this concludes my prepared statement. At this time my colleagues and I would be pleased to answer any questions that you or other members of the subcommittee may have.

Mrs. COLLINS, Thank you very much, Mr. Jones.

Yesterday when the GAO was here there were a number of questions that I had that I purposely saved to direct to you this morning. A number of these things were really alarming.

Have you had an opportunity to see their testimony and their attachment list?

Mr. JONES. Yes; we have.

Mrs. COLLINS. All right. On page 5 of that testimony there was something about which I was very concerned. GAO reported that there was a plugged figure in one of the audits that had been done and that there was a discrepancy of almost half a million dollars. The figure was plugged to obtain a balance.

When we asked a question yesterday about that plugged figure we were told that the reason why it was plugged was, although it had been caught, because the Department of Labor wanted it plugged. What do you have to say about that?

Mr. JONES. I can assure you, Madam Chairwoman, that the Department of Labor at no time, in any situation, has ever suggested, requested, or provided instructions to anyone along that line. I would seriously question that statement.

It is not impossible that an individual may feel that way, but as soon as the GAO report is received by the Department we will immediately move to examine that situation.

Mrs. COLLINS. As I understand it, we were talking about internal controls and what have you that the Department of Labor uses. It is our understanding that the audit was subjected to a Department of Labor quality review including assessment of working papers, but that this $448,000 figure just was not caught.

Do you know how a situation like that could happen such that it would not be caught?

Mr. JONES. Mr. Stepnick?

Mrs. COLLINS. Mr. Stepnick.

Mr. STEPNICK. Yes; I would be pleased to answer that as well as to comment more generally on the whole GAO testimony about the quality of audits.

Specifically, in this particular audit there was a lack of due professional care on the part of the auditor who performed the audit, and the DOL auditor who reviewed the audit in the quality control process was equally guilty of undue professional care.

This audit was conducted during 1977. It is not a recent case. In fact, all of the 13 cases that the GAO used in reaching their conclusions involved audits that were done during the period 1975 to 1977.

The particular accounting firm has since been given departmental work. Its work has been found deficient and three default letters with respect to current contracts have been issued to it. We expect either not to pay for the deficient work or to make other arrange-

ments with the contractor so that the work will be brought up to standard.

Mrs. COLLINS. Have you done anything about writing to the Association of Independent CPA's, or something, to tell them about this firm and the work it is putting out?

Mr. STEPNICK. In this particular case—the one that GAO cited—it is of sufficient seriousness to be submitted to the ACPA for this purpose. However, it involves work that was done 3 years ago and perhaps——

Mrs. COLLINS. When was the work done that you mentioned? I mean the other work they have done for which they have been cited. Has that been since that time?

Mr. STEPNICK. I think the course that we should take is this. After we get the work up to——

Mrs. COLLINS. My question was: Was that work done after that time?

Mr. STEPNICK. Yes; this was later work. We should have caught the mistake back in 1977 but we have caught the poor work of this firm subsequent to that.

Mrs. COLLINS. I think we had better work under the 5-minute rule because we have a number of members here. I have, perhaps, another 2 minutes and then we will move on to other members.

There was also a question raised yesterday during the GAO testimony. There seems to be a continuing lack of responsiveness on the part of the Department of Labor when it comes to employment and training programs that dates back to about 1962. Why does this seem to be the case in these kinds of programs? Especially when during this entire period of time there has been sufficient need to try to hire and train the unemployed and yet we find that funds have been squandered all these years and the lack of internal controls is ever present and the money is being wasted and is not getting to the beneficiaries.

Why is it in a case like this where the mission of the Department is so important that nothing seems to be happening to tighten up the money spending? Mr. Jones?

Mr. JONES. Madam Chairwoman, I would disagree that since 1962 nothing has been done to tighten it up.

Mrs. COLLINS. Very little has been done. The results show that whatever was done was not effective.

Mr. JONES. I think that even the GAO testimony yesterday would indicate that the Department has been responding over the last year, in conjunction with this committee, by directly taking action relative to that concern.

Through the early part of the 1970's, I would suggest, your concerns would have been warranted. As you know, the CETA program doubled, tripled, and quadrupled in size in a very short period of time. We had problems not only in this area but in the management of the program itself.

We are very concerned about these issues. The CETA reauthorization 2 years ago was directly related to that—the amendments proposed by the Department and the Congress moved to deal with those kinds of problems. They were implemented over the last year. We are in the process this year of beginning to see the results of that and to evaluate them.

We will move through the GAO report that will be provided as a followup to their testimony yesterday and will work with this committee to determine the next round of actions that ought to be taken to continue to further improve those kinds of oversight functions.

Mrs. COLLINS. Mr. Grisham?

Mr. GRISHAM. Thank you, Madam Chairwoman.

Mr. Jones, the Congress allocates about $10 billion a year to CETA programs. The mail I get from my constituents as well as what I see in the news media, and everything else, tells me of all the abuses in that program. Now, you either need a better accounting program or a better public relations man, because your product is not being sold. There is every indication, from what I get, that people would like not to fund that program again. Politically I do not know whether or not we can do that because every American in the United States would be on us. But Members of Congress read the mail that they get and they pay attention to what people say. They say it is a poorly run program and that there is fraud and abuse.

Then you gentlemen give me great testimony here that says, "Yes, but that is all going to stop." My people do not want to hear that. They want to hear what is being done. GAO reported that on paper the CETA system of internal controls is adequate, yet it is clear that many examples exist of serious problems of fraud and abuse. "There are weaknesses in the monitoring, audit coverage, audit quality, audit followup, and in internal controls generally." GAO believes, and I agree, "that this is due to a lack of concern on the part of the top Department officials for program accountability and sound management."

Can you cite evidence which might counter the image that you have?

Mr. JONES. Let me make two statements, Mr. Grisham. First, I think that you are absolutely correct in your assessment of the public view of the program. I would like to suggest one historical statement about that.

The CETA program, unlike many other social programs through the last few years, is a public and participatory effort at the local level. It was decentralized to local governments. It was surrounded by planning councils and other institutions to bring the public and the local community into a participatory role in the program. As such, its abuses are raised to the public view in double strength.

It makes it difficult for all of us but it is also one of the inherent advantages of the program, because things are not left in the way to be abused over a period of time. It does mean that all of us have a heavy responsibility to deal with them as they are brought up, both locally and nationally.

I believe the Department has attempted to do that but we do not always succeed. I would differ with your statement that our testimony this morning suggests that we are saying to you that all these problems will stop. What we are attempting to say is that we are trying to deal with them and this is our current status in that effort.

Let me get to the second part of your question. I believe that the efforts to revise our audit procedures and our investigative proce-

dures have been documented over the last year. The actions that were necessary and on which the Department has moved forward to address the concerns are on record.

I think the 1978 CETA amendments dramatically instituted specific procedures regarding many of the questions that we are dealing with this morning at the prime sponsor level. They put in new requirements——

Mr. GRISHAM. If I may interrupt you. I am not an auditing person so I should not be in that field, but in my city we ran CETA programs, I think, rather effectively. We are a close-knit city, a small city, and I think we ran them effectively.

However, I am concerned that the cities are using your money and the Government's money to make work and run the cities' programs where it is not a truly training situation. Now, there is nothing down here that measures that but I think that these are the abuses that I hear, namely, that whatever the city is, it is just using those people to maintain their subsidy.

Mr. JONES. Very clearly, that has been one of the abuses of the program. That was specifically addressed in the 1978 amendments so that we would move away from that. There were several things that were instituted: The average PSE wage, the maintenance of effort provision, restrictions regarding wage supplementation, etc., to preclude that kind——

Mr. GRISHAM. Yes there were. It did delimit them. In fact we could not hire anybody. I am not sure we accomplished what we wanted.

Mr. JONES. In addition to the training requirement, which you may recall was added, so that those additional public service employees had to receive some additional training rather than just——

Mr. GRISHAM. I may report that in my city we did take over three or four high executive positions in the CETA program. It did work in our city.

Our concern was, as I mentioned to you, that people were just having jobs. There was no training whatsoever and you answered that sufficiently.

Mr. JONES. I think that is a major concern. I think we are only part of the way there in terms of examining what the results and the impact of those specific elements are that have been put in place. I look forward to the administration moving in 1982, when the CETA reauthorization comes up again, to a further reexamination of that——

Mr. GRISHAM. If it comes up again I hope that your public relations are better so that we will not have people yelling at us.

I yield back the balance of my time.

Mrs. COLLINS. I do not hope it is a matter of public relations. I hope that the whole operation is a great deal better because it makes it awfully difficult for those of us who are interested in the program to always be trying to fight, especially at appropriations time, when you have such a doggone dismal record.

Mr. Maguire?

Mr. MAGUIRE. Thank you, Madam Chairwoman.

Mr. Jones, almost 2 years ago the representatives of the Department of Labor testified before this committee that they intended to audit the ATS contract in Hudson County. Has that been done?

Mr. STEPNICK. There was a recent audit by a public accounting firm that was hired by Hudson County. We have received that report and looked it over.

We do not think that it adequately deals with all of the concerns that have been raised about this organization. We planned our next audit of the Hudson County prime sponsor for 1981. We will specifically, ourselves, examine the costs and activities of this subcontract.

Mr. MAGUIRE. The contract that we are talking about was concluded, I believe, in 1978. It was one about which very serious questions had been raised by regional DOL personnel. What you are telling me is that some time in 1981 the Department will get around to looking at a contract that was completed in 1978 about which the most serious questions had been raised at that time, not only within the Department but by this committee.

Is that correct?

Mr. STEPNICK. I first learned about it shortly after I was appointed to my present position, so I am not privy to all the other activities that have occurred in the intervening years.

The questions that were raised by our auditors—there is a history of three audits involving Hudson County—involved the question of adequate competitive bidding procedures. These questions have been continually raised and addressed.

During the last audit it was concluded that competitive bidding procedures were properly followed in the award to ATS but they were not adequately documented. The situation was not just precisely as clear as it should have been. It was for this reason that we decided to make sure, to remove any doubt, as to the allowability of the costs incurred by making the audit in 1981.

Mr. MAGUIRE. As of today—and I take it we will not have an audit until 1981—there will not be any final Labor Department determination as to whether the costs of that contract should be disallowed, whether the proper procedures were followed, whether in fact Federal moneys were being properly spent. Is that correct, Mr. Stepnick?

Mr. STEPNICK. Yes.

Mr. MAGUIRE. At Atlantic City this committee found that a $180,000 contract for the training of 100 bellhops had also raised some questions. Ultimately, DOL disallowed funding for that contract but it has been under appeal by the prime sponsor.

I take it that the appeal has yet to be heard. Is that correct—and here we are again 2 years later?

Mr. BACCUS. A hearing has been requested before the office of the administrative law judges with regard to the appeal by Atlantic County. We are now awaiting a date——

Mr. MAGUIRE. When would you think that this matter which, again is carried over from 1978—it is now 1980—might be resolved and the public moneys involved be safeguarded in whatever way that the DOL sees fit? Can you give us an estimate of when you might complete that work?

Mr. BACCUS. We do not have any control over the scheduling of cases by the office of the administrative law judge. However, I would think that an administrative case would be heard within 6 to 8 months, provided there are no further appeals, which may exist under the law, we will have a final determination on which to move.

Mr. MAGUIRE. In the interim, my understanding is that ATS, about which serious questions have been raised both with respect to Hudson County and Atlantic County, has continued to seek and receive contracts in New Jersey and elsewhere. Let me just check and see whether I am correct.

My understanding is that in Philadelphia they have some contracts with CETA for the training of home health aides and that in Trenton as well as Atlantic City they have, since 1978, new contracts for the training of truckdrivers. Is that correct information or can you correct me if that is not correct?

Mr. JONES. We would not have a list available as to where they might have contracts at the subcontract level. We can find that out but that would take some detailed searching.

Mr. MAGUIRE. I think that would be helpful to this committee if you could supply us with that information.

One of the questions I think we have, Madam Chairwoman, is the extent to which DOL exercises any kind of vigilance over the contracting process when there are cases of past difficulty. For example, ATS has a record of having been disaccredited for the truck driving course in previous work with HEW, a point which was brought out in these hearings 2 years ago.

Therefore, it would seem most peculiar to me if we now have a situation in which that course or similar courses were being pursued with public moneys in additional locations, unless there is some clear indication by the prime sponsor or DOL that those courses are different than the ones for which ATS was disaccredited for having botched them so badly when they worked with HEW.

Mr. JONES. Let me suggest that if our difficulties with any particular subcontractor have resulted either in disaccreditation or legal action, or any major problems from the management standpoint, we would agree with you. We would move to deal with that.

Raising audit questions does not, I think, constitute a situation wherein we would move to bar a subcontractor throughout the system until it is resolved and a final determination is made.

Mr. MAGUIRE. It sure is difficult to do anything until you resolved the questions. You have just told me that you are going to get around to doing that, in the case of Hudson and Atlantic Counties, perhaps 3 or 4 years after the fact.

Thank you, Madam Chairwoman.

Mrs. COLLINS. Without objection, the material you requested will be inserted in the record when it is received.

[The material follows:]

American Training Services

ATS in Region III (Philadelphia)

Region III has two prime sponsors who in turn have subcontracts with ATS.

The City of Philadelphia had a contract with ATS in Fiscal Year 1979 and another in this present fiscal year.

Name of Contract:	American Technical Services
Amount of Money:	FY 1979 - $ 46,800 FY 1980 - $144,540
Type of Training:	Secretarial Training
Number of Slots:	FY 1979 - 50 FY 1980 - 45 (per cycle 3 cycles per year)
Number of Entered Employment:	FY 1979 - 26 FY 1980 - 25
Number of Positive Termination:	FY 1979 - 40 FY 1980 - 36 (to date)
Cost per Placement:	FY 1979 - $3,679 FY 1980 - $3,826 (planned)

Performance of last years contract, as well as this years'contract to date, is satisfactory.

Montgomery County, Pennsylvania has a contract with ATS during Fiscal Year 1980.

Name of Contract:	American Training Service
Amount of Money:	$46,800
Type of Training:	Secretarial
Number of Slots:	20
Number of Entered Employment:	Course started April 1, 1980 no one has finished the course as yet
Number of Positive Terminations:	
Cost per placement:	$2,340 (Planned)

Performance of this contract, to date has been satisfactory.

Mrs. COLLINS. The time of the gentleman has expired.

Mr. Butler?

Mr. BUTLER. Thank you, Madam Chairwoman.

I appreciate the attendance of the witnesses today.

Mr. Jones, the best index to an agency's performance is the professional quality of its spokesmen. And, the best measure of professional performance is how well you have your act together.

The chairperson has called our attention to the fact that we did not get your statement until late yesterday afternoon, despite the fact that we asked for it early Monday. The Secretary's response to our report was received May 15 and had been requested by January 20. During the intervening period this subcommittee received no indication of why it took so long to respond to the report.

I do not want to be unfair about it, so I am going to give you a chance to characterize the situation, but I do think you should have addressed that in your statement.

Basically, my question is: Is your failure to respond to this subcommittee the result of—I will give you a choice—arrogance, indifference, incompetence, somebody else's fault, or none of the above? [Laughter.]

Mr. JONES. Mr. Butler, I think that with respect to the statement which we delivered today and its failure to get here a day or two earlier as requested, the Department would apologize to you. We moved as expeditiously as possible to prepare that statement and get the proper clearances on it so that we could provide the departmental positions and administration's positions to the committee.

I would apologize to you that it is a day and a half late in getting here. I understand the difficulties that you have had in that regard and I have suggested to the committee staff that we will work with them to do everything possible to overcome that in the future.

With regard to the Department's response to the report, I think that there are two statements that are appropriate. First, you are absolutely correct that you should have received an interim communication from the Department as a matter of courtesy which kept you up to date on where we were and what we were doing.

The reality of the situation was that that report was a significant one to the CETA system and to the Department. A significant effort was directed on the part of the Secretary to not respond in a short or offhand manner, but to examine the systems that were in place and to try to respond to the committee as to major changes in the CETA system. That was done.

It took us longer than necessary to in fact make the management changes which we reported to you in that report and I am hopeful that, as the committee reviews that report, you will find it neither argumentative nor negative but in fact in agreement with the committee on the problems that were pointed out and in the Department's laying out of a significant set of management actions to deal with it.

I hope, in the end, the substance of that effort is the most responsive element that we could have provided to the committee.

Mr. BUTLER. I thank you for your response, but I hope you will understand that these hearings are so much more valuable to us if we have an opportunity to evaluate your statements with care as

well as your responses to earlier statements so that we can pursue the many questions which have been raised.

It will become apparent during the course of my questioning that I could perhaps be more artful had I had more opportunity to examine your statement.

If I may turn to a specific problem area, I think the best way to find out about performance is to zero in on one problem area. Let us turn to the District of Columbia prime sponsor.

It is my understanding that the District of Columbia has as its prime sponsor the Government. During the course of CETA I believe it has had some $220 million. Is that a fair statement?

Mr. STEPNICK. Yes, sir.

Mr. BUTLER. Has the District of Columbia prime sponsor ever been audited?

Mr. STEPNICK. Yes, sir; there is an audit now in process.

Mr. BUTLER. When was that audit initiated?

Mr. STEPNICK. It started in the fall of 1979.

Mr. BUTLER. In the fall of 1979 you began your first audit of the District of Columbia prime sponsor.

Mr. STEPNICK. Yes, sir.

Mr. BUTLER. There had never been a prior audit.

Mr. STEPNICK. That is correct.

Mr. BUTLER. Tell me, how thorough is this audit going to be? Is it a unified audit?

Mr. STEPNICK. With your permission, I would like to discuss the audit situation in the District of Columbia.

Mr. BUTLER. All right, but answer that question first. Is it a unified audit?

Mr. STEPNICK. I am not sure. Let me explain why.

When we started the audit it was with the express intention of having a unified audit which would have meant that we would arrange through the District of Columbia for them to select, with the cooperation of our audit contractor, certain subs and to arrange for concurrent audits so that a unified audit would result.

In early 1979 we began discussions with the District of Columbia for that particular purpose. After every meeting it was promised that they would continue to work with us and that lists of subsponsors would be developed so that an appropriate unified audit plan could emerge.

The District officials agreed that it would be a good idea, but, quite frankly, sir, in meeting after meeting that we have held with the District they have told us that they would send out a request for proposals so that the subs could be audited. At each meeting specific dates were agreed to for this to take place. It has yet to take place.

Mr. BUTLER. That is what you call dilatory tactics in my profession. Is that correct?

Mr. STEPNICK. We are becoming quite impatient——

Mr. BUTLER. All right, but the chairwoman has a heavy gavel and I do want to pursue this.

Mr. STEPNICK. I do want to mention that this is not unknown. It is not something that just the auditors have been concerned about. The Regional Administrator of ETA and the Assistant Secretary of

ETA have had numerous meetings with the District of Columbia City Manager and——

Mr. BUTLER. Numerous what?

Mr. STEPNICK. Numerous meetings—excuse me—regarding subsponsor audits. We still have this problem.

Mr. BUTLER. What you are saying to me is that you did not get around to having a prime sponsor audit because you could not arrange for the prime sponsor to audit the subcontractors.

Mr. STEPNICK. No; the prime sponsor audit is going ahead. However, the question of whether or not it will be a unified audit depends upon the cooperation of the District.

Mr. BUTLER. You are not telling me that you have delayed the audit of the prime sponsor while you arranged for the prime sponsor to audit the subgrantees.

Mr. STEPNICK. The audit of the prime sponsor is going on but the question of achieving the unified audit objective will require cooperation from the District.

Mr. BUTLER. How thorough will your audit of the District as prime sponsor be?

Mr. STEPNICK. It will cover—it will be a full scope financial compliance audit.

Mr. BUTLER. Wait a minute. How did we get into the future tense? I thought we were in the middle of this thing.

Mr. STEPNICK. It is. It is a full scope financial compliance audit——

Mr. BUTLER. How much energy or resources have you dedicated to this prime sponsor audit between the fall of 1979 and today?

[Information supplied for the record by the Department of Labor:]

We have budgeted the cost of this audit, which will be completed by a CPA firm under contract with the Office of Inspector General, at $222,243.

Mr. STEPNICK. The work is being done by a public accounting firm—that is, a consortium of two public accounting firms. I would have to supply you with the amount of money that we have paid to date with respect to it.

We are very closely monitoring it. It has been hampered by our continuing desire to move ahead on the unified audit concept.

Mrs. COLLINS. The time of the gentleman has expired.

Mr. BUTLER. Thank you.

Mrs. COLLINS. Mrs. Snowe?

Mrs. SNOWE. Thank you, Madam Chairwoman.

Mr. Jones, I hope you leave the hearing this morning with the impression that the committee is certainly frustrated and disappointed over the management and administration of the CETA program. I am coming to the conclusion that poor administration of CETA has certainly victimized it.

I am left with the impression by your testimony that you discovered the problems of the program yesterday because all of your replies here today are futuristic.

How long have you been with this program? How long have you been in your position?

Mr. JONES. I have been with the program since the beginning. I have been in my current position for about 6 or 8 months.

Mrs. SNOWE. We in the Congress have dealt out billions and billions of dollars to this program and it seems to me, at least it is my impression, that these problems have reoccurred over and over again. Now, what do Department regulations stipulate as far as periodic audits of prime sponsors are concerned?

Mr. JONES. The CETA regulations require that CETA prime sponsors be audited every 2 years.

Mrs. SNOWE. Do you do that?

Mr. JONES. The Department has not achieved an every 2-year audit across the board. As a result of that, what we are doing now is to move to require that that be achieved regardless of whether the Department conducts it, or the prime sponsor has to hire to have it done itself. Either way, it has to be done within the 2-year period.

Mrs. SNOWE. What makes you think things are going to change now? What are you going to do to make sure that this is done?

Mr. JONES. By allowing prime sponsors to expend their own administrative funds at our direction to insure that the audit is done in cases where we cannot achieve it with the resources that we have. This will assure that it takes place.

Mrs. SNOWE. Do you impose sanctions?

Mr. JONES. Yes.

Mrs. SNOWE. In what way? Cite examples.

Mr. JONES. For what?

Mrs. SNOWE. For prime sponsors spending money inappropriately. The GAO report is replete with instances of that, as well as of subgrantees. Periodic audits are weak. Your internal controls are weak. Your audit procedures are weak.

You really did not respond to the GAO report in your testimony.

Mr. JONES. We have not received it yet.

Mrs. SNOWE. What I am saying is that you have mentioned sanctions. Do you use them?

Mr. JONES. Yes; for prime sponsors and subcontractors. Sanctions include everything from management corrective actions through disallowance of costs and payback of funds, and ultimately criminal sanctions could be required.

Mrs. SNOWE. This committee would be truly interested in specific examples. Can you cite any offhand?

Mr. JONES. Examples of what? Where funds have been——

Mrs. SNOWE. Of corrective action, disallowance of costs or paybacks.

Mr. JONES. Yes; I can provide you with a list if you would like whenever you would like. There are quite a number of cases of funds having been recaptured. There is a large number of cases where corrective actions have been outlined. In some cases, a minimal number, criminal sanctions have been provided.

Not the least example of the paying back of funds is right here in the District of Columbia, where, you may know, at one point earlier on there was a misuse of CETA by having public service employment participants in jobs serving the city council. We have requested the payback of funds and have an arrangement with the city whereunder those funds are being paid back. It is a rather substantial amount of money.

The same is true in quite a number of other cases.

Mrs. SNOWE. Do you terminate or suspend grants?

Mr. JONES. Yes; we do.

Mrs. SNOWE. Can you give us an example of that?

Mr. JONES. I can give you one example of a total prime sponsor having been terminated. When it comes down to subcontractors, much of that is done by the prime sponsors themselves. It would be difficult to give you a response in terms of all of those that have been terminated. They are terminated every year.

There are some cases where we would move in and require the review of subcontractors and we have several under review at the moment.

If you will let me go back just a moment. Tom, you might want to give the total numbers on the disallowed costs that have been applied over the past years.

Mr. KOMAREK. Mrs. Snowe, in preparation for this hearing, through our management accounting system, we determined that during fiscal year 1979 we resolved 164 audits. In those audits there were $24.6 million in question costs. Out of that $24.6 million in questioned costs, ultimately there were answers for about $17.9 million I would be pleased to discuss those answers with you.

However, we did disallow, during fiscal year 1979, in the CETA system $6.7 million of questioned costs.

Mrs. SNOWE. Did you get the money back?

Mr. KOMAREK. During fiscal year 1979 we collected $1.3 million. I would explain that——

Mrs. SNOWE. Did you say $1.3 million?

Mr. KOMAREK. I would explain that this is just an audit. This does not pertain to such cases as Bob just mentioned.

Mrs. SNOWE. It is not unfortunate that you do not have a system that will prevent your getting into a situation where you have disallowed costs in that proportion. I mean, it is my impression—and certainly I am no expert on auditing procedures—that you have no systematic regular pattern of procedures that the prime sponsors and subgrantees can expect. It seems to me very irregular. Your prime sponsors have not been audited on a regular basis. In some cases there has been a lapse of 3 years or more.

Have all the prime sponsors been periodically audited? Have some never been audited?

Mr. STEPNICK. There are 14 at the moment that have never been audited.

Mrs. SNOWE. Why is that? That is part of your responsibility.

Mr. STEPNICK. I believe that the GAO made a point in their testimony yesterday that resources devoted to the audit function have been a problem in the past. I think that if you had to single out one thing that would be it.

Mrs. SNOWE. Your auditors were reduced in the budget in 1973 and in 1974. Now you are going to have how many—183 auditors, or in that neighborhood?

Mr. STEPNICK. We have about 190 in the Office of Audit now. Since the GAO report there were 59 additional positions provided that have been dedicated to the CETA audit function.

In addition, as Mr. Jones indicated, we will be able to rely, hopefully, on grantees to procure audits if they meet our standards.

We do anticipate much better audit coverage beginning partially this year but particularly next year.

Mrs. SNOWE. Why is it next year? That is the problem. I said that all of your replies were futuristic. In fact that is the case. It is always next year.

Mr. STEPNICK. Let me give you an example. The 59 positions were provided in the 1980 appropriation. We recruited about half of those positions. Hiring restrictions were then imposed governmentwide.

For those employees that we did hire, we have to teach them the CETA operation. It is a very complex program that requires a significant amount of training. For those that we hired to go to residences, there are relocation moves as well as training.

Therefore, the impact of those hires, of necessity, will not be reflected until 1981.

Mrs. COLLINS. The time of the gentlewoman has expired.

Mrs. SNOWE. Thank you.

Mrs. COLLINS. Mr. Stepnick, I was interested in her line of questioning. I was interested in some of the things that were asked about the unified audit.

In response to Mr. Butler's question about the unified audit, did I understand you correctly that the reason why you do not have a unified audit is because you had to get the cooperation of the District of Columbia?

Mr. STEPNICK. In the case of the District of Columbia——

Mrs. COLLINS. Why is there difficulty in getting the cooperation of the District of Columbia? Can the Department of Labor not mandate that they give you the kind of cooperation and assistance that you need?

Mr. STEPNICK. Yes.

Mrs. COLLINS. Why do you have to footsy around with them?

Mr. STEPNICK. I think we are at the point where we should stop footsying around with them.

Mrs. COLLINS. I do too. I most definitely do.

Mr. MAGUIRE. Does the gentleman mean that they have in fact been footsying around with the District? [Laughter.]

Mrs. COLLINS. Obviously that has been the case.

Mr. MAGUIRE. Yes.

Mrs. COLLINS. It is just plain obvious.

Mr. MAGUIRE. It is nice to have it acknowledged.

Mrs. COLLINS. How much money have you received from the District of Columbia? I think someone mentioned that you found that the District of Columbia as prime sponsor was supposed to be paying some money back. Is that right?

Mr. JONES. Yes. I recall that the first payment is due this next quarter. I am not sure. There is a specific agreement about when the funds are to come in. I can provide that to you if you would like.

Mrs. COLLINS. I am told now that the first payment was due last October. What happened?

Mr. JONES. I do not know the exact date. The finding was——

Mrs. COLLINS. Was it due this past October? Mr. Stepnick, do you know when the payment was due?

Mr. JONES. Let me explain. The finding——

Mrs. COLLINS. Wait a minute. Are you telling me that the Department of Labor does not know when money is due it?

Mr. JONES. I do not have the dates sitting here in front of me. I will have to provide it for the subcommittee.

Mrs. COLLINS. Do you know the time of the year? Was it in the fall of the year that it was due you?

Mr. JONES. I can explain to you only that the findings were completed last year some time and the arrangements on the payback were recently negotiated to set a specific schedule to receive——

Mrs. COLLINS. I have a memorandum of agreement saying that the quarterly installment payments were to begin on October 1, 1979. Another installment was due on January 1, 1980, and another due on April 1. You are already three payments behind.

Mr. JONES. That may well be the case. I can provide you the information about what we agreed upon with the District of Columbia on the schedule of payments——

Mrs. COLLINS. Here it is right here. It was agreed upon last July, so you are already three payments behind and you are sitting here telling us that you do not know that you are three payments behind and you are going to try to find out when the agreement was made and if it was made. Here it is in your memorandum right here.

Please provide us with updated information that will be satisfactory to this subcommittee.

Mr. JONES. We will be happy to provide that information to you. It is an agreement with the city to pay back the funds. There is no difference in that area. I suspect it is a matter of common knowledge that the District of Columbia has visible fiscal problems.

Mrs. COLLINS. Without objection, that material will be included in the record at this point when it is received.

[The material follows:]

Status of the District of Columbia Payments

An agreement between the District of Columbia (DC) and the U.S. Department of Labor (DOL) addressed the D.C. Council Public Service Employment (PSE) problems. The agreement provided for D.C. to reimburse $1,379,657 to DOL on a quarterly basis beginning October 1, 1979.

In a letter of March 18, 1980, from Mr. Elijah B. Rogers, City Administrator for D.C. to Mr. Ernest Green, Assistant Secretary for Employment and Training, Mr. Rogers informed the Department of Labor that the District was unable to meet the schedule for reimbursement. The delay was due, in part, to the delay of the City's appropriation from Congress. Mr. Rogers also indicated in his letter that D.C. had identified funding sources required to implement the planned reimbursement.

However, in lieu of a cash payment each quarter the City proposed to hire CETA eligible participants and pay for them out of the city's designated funding source. Mr. Green accepted Mr. Rogers proposal. As of June 9, 1980, D.C. DOL has a job order in to hire 25 participants and will have hired 80 participants by the end of July. All payments are scheduled to conclude by March 30, 1982.

Status

- As of July 11, 1980, 59 of the 80 slots have been filled.
- The District is, therefore, slightly behind in meeting their obligation.
- The Regional Office has reviewed the District's recordkeeping for the payback arrangements and will continue to monitor the operation to see that full agreement is met.

Mrs. COLLINS. It also has more than a visible problem of internal control. I think you have a problem too when it comes to internal controls.

I think the lady from Maine has indicated that one of the problems that we have all been talking about that you happen to have is that of internal controls. You, Mr. Stepnick, mentioned that you have not been able to get the auditors that you needed. This is a problem in all of the Government. You never get the number of employees that you need to do a job.

Nevertheless, given this situation, and being auditors, and knowing the importance of internal controls, why is it that the Department of Labor has not enforced rigid internal controls to prevent the kinds of things that you have happening, especially in light of the fact that you do not have the auditors that you need?

I think there are examples of flagrant abuses, such as wedding parties aboard the Queen Mary on CETA money. You have the buying of 1,000 water meters for a city that is only going to train 12 people. They said they were going to train one dozen people. These are flagrant abuses.

I believe if you had a solid internal auditing control system abuses throughout the system could be prevented.

Mr. STEPNICK. There is no question that the best line of defense against any kind of waste, error, or fraud is sound internal control. In the CETA program it is an incredibly complex problem because the internal controls really need to exist at three levels—the Department of Labor, the prime sponsor level, and the subsponsor level.

Mrs. COLLINS. How long have you been fooling around with training programs in the Department of Labor?

Mr. JONES. Since 1973.

Mrs. COLLINS. Yet, in 7 years you do not have a system of internal controls set up at the three levels that are necessary.

Mr. STEPNICK. We are working to improve them.

Mrs. COLLINS. Yes, but you are kind of late on starting to work on them. That seems to be the problem.

Mr. JONES. I think you are absolutely right, but there are a couple of points that need to be made in that regard. The CETA system, during that time, has dramatically changed. You may recall that the CETA system was put in place originally because of a large number of individual contracts that the Department of Labor itself was controlling. That became a rather large and disastrous administrative burden. It was not well handled.

When CETA first started it was not perceived that we would have 50,000 subcontractors or that the program would be near the size to which it has grown during the last 2 or 3 years. I suspect, had the environment stayed as it was in 1973 and 1974, our discussion today would be much different.

What happened during that time is that many prime sponsors began to grow in size into an unmanageable kind of a program and began to subcontract to a large extent——

Mrs. COLLINS. Knowing that this was the case, was not somebody in CETA aware enough to know that you were going to have to have, with all of this broadened responsibility—greater internal control.

Mr. JONES. Absolutely. We had to grow with that process and set those controls in place.

Let me make a distinction of two types. One is regulatory, administrative, and other requirements to try to——

Mrs. COLLINS. We understand that. We hear that. Every time someone comes in front of us they tell us about the regulatory stuff, and what not, but you have an awful lot of leeway in all of these regulations that come up before the Congress, in the Federal Register, and what have you, but decisions are made by people not by written words.

Regulations are gone over, under, around, and through in most instances. That is one of the reasons why you do not have the kinds of controls that we are talking about today, so I do not accept that as a reason for this kind of lack. I would expect to hear something more positive than that.

Mr. JONES. No, I do not accept it as a reason either. I just accept it as an environmental fact that has caused some of our difficulties.

I would go to your point and suggest that in putting those requirements in place I believe the Department has acted consistently and appropriately. The point that you are making and that we are wrestling with day in and day out, in audits, investigations, and our own management programs, concerns the resources necessary to oversee that those things are in fact done.

We are seldom lacking in requirements saying they should be done. The question is: Can we stay on top of it to a large enough degree to insure physically that they are or are not being done?

I would ask one thing. Mrs. Snowe's issue is a valid one but it should not be left strictly to the matter of audits. The audit program has been laid out as have the directions in which we are going. They are futuristic but that is not our total management system.

Our total management system involves having every prime sponsor assessed and they know that process is coming. It is a public process. It is displayed in the newspapers, city councils, and everywhere else. Prime sponsors are examined in some depth and the management system of controls, corrective actions, and followup are in place—they are well documented and well acted upon.

We have the standard monitoring program wherein those programs are examined by our own staff, not by auditors. We are consistently overseeing those programs. Some of the difficulties——

Mrs. COLLINS. We also know that they can get around those processes. We have had hearings in which we have found that the monitoring has not been adequate, and so forth. You do not have the kind of self-policing that you are trying to lead us to believe that you could or should have. You just do not have that.

Mr. JONES. I am saying that the system is there. If you want to question the amount that we have with available resources in terms of the total——

Mrs. COLLINS. I want to question the effectiveness of the system. Is this system effective? That is the question we are trying to get at here today.

Mr. JONES. I suspect the question of effectiveness is a matter of judgment that you, the Department, and everyone else would have

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to make in terms of the total dollars, the total staff, and where that line is drawn——

Mrs. COLLINS. I would say that historically it has not been effective.

Mr. JONES. I think that is true.

Let me make one point and then——

Mrs. COLLINS. And then my time is up after you make your point.

Mr. JONES. I would ask that we keep in perspective here, when we judge the system as a failure or we judge the Department as a failure——

Mrs. COLLINS. I think it is both.

Mr. JONES. It may well be in some respects but not in totality. The total numbers of disallowed costs in proportion to the total CETA dollars that have been spent and the total funds for people who have received services from the program are probably better than most programs that we have seen——

Mrs. COLLINS. That is what I am trying to talk about. That is right. That is the question.

My time has long since expired.

Mr. Grisham?

Mr. GRISHAM. Thank you, Madam Chairwoman.

Specially, do you have any figures on how many people we have gainfully employed in this program?

Mr. JONES. Do you mean, employed as a result of leaving, during the program, or what?

The answer is that we can provide whichever one of those that you would like.

Mr. GRISHAM. What I am trying to figure out is: How much is it costing us per person? Do you have that figure?

Mr. JONES. We can provide those figures.

Mr. GRISHAM. Does anybody have that off the top of their heads?

Mr. JONES. Our public service employment program averages about $9,000 to $10,000 a year per position. Most of our people stay in those less than a year and then move on to employment. The costs for actually having them receive a job on the outside are higher in that some do not. The figures there run such that 50 to 60 percent of those people are receiving permanent employment as they leave the program.

In the training program it runs about $5,000 a year per slot and people are in there from 3 to 5 months on an average, so it would be a lesser figure than that per person.

Mr. GRISHAM. Would that be like the WOW program here in Washington, D.C.?

Mr. JONES. Yes, to the extent that I am familar with that program.

Mr. GRISHAM. They testified yesterday.

Mr. JONES. Yes.

We could give you those figures specifically——

Mr. GRISHAM. Would that be what you would call a training program costing $5,000? They seem to be very effective. They were placing people and the retention rate was about 80 percent.

Mr. JONES. I cannot testify to their specific success but many of our programs are at least that successful; some are not.

Mr. GRISHAM. I yield back my time.

Mrs. COLLINS. Thank you.

Mr. Maguire?

Mr. MAGUIRE. Thank you, Madam Chairwoman.

Turning to Bergen County, N.J., Mr. Jones, one Albert Terranova, who was convicted for defrauding the United States under previous manpower contracts, has had a $350,000 contract with Bergen County CETA.

I am informed that the regional office has moved to forbid Mr. Terranova from entering into any contracts or agreements which require the payment of CETA funds. It also looks, from this material which you have submitted to us, as if there is now an opportunity for informal resolution. I want to know what that means.

Mr. JONES. Yes, sir. Two things have taken place in this particular case. We have formally moved to prohibit him from further contracting and he has, under the auspices of the law, asked for a hearing on that point. The process is now in progress. He is going to have that issue reviewed and have a proper hearing to determine whether or not he should be permanently removed from any contracting system.

Mr. MAGUIRE. Suppose he reorganizes under another name as soon as you finish with this.

Mr. BACCUS. That would not change the impact with regard to him. He would still be precluded from engaging in a contract.

I might point out one other point here. The reference to the informal resolution as it regards that document appears to track the statutory language which requires that after there is an initial determination there will be an attempt at informal resolution and then a final determination from which the party has a right to request a hearing before the office of administrative law judges.

From that proceeding he may seek an appeal to an appropriate U.S. circuit court. That is the procedure which is laid out in the statute and that appears to be what is referenced in the document.

Mr. JONES. To finish my answer, Mr. Maguire, the other statement is that the Department is in the process of informing prime sponsors of the fact that that is taking place—without prejudice on either side—so that the information is available to both the system and the individual involved.

Mr. MAGUIRE. One of the things that was discovered in the documents relating to the ATS contract in Hudson County was that there was a law firm, of which Dan Krivit was, I think, the principal, which had been the recipient of a variety of contracts, presumably for legal work, but which DOL regional personnel in analyzing it felt also included lobbying activity and administrative activity and that those were, at least, the sort of costs that ought to be reviewed very carefully as to whether or not they should be allowed or disallowed.

Can you tell me whether any final determination has been made with respect to the payments to Mr. Krivit at Hudson County or elsewhere for services which were described by DOL personnel as being lobbying activity or administrative activity in connection with audits, conferences, et cetera, as opposed to being strictly legal work?

Mr. JONES. With regard to the Hudson County audit, the audit did not disallow any costs with regard to the legal fees charged. It was suggested in the audit—I guess it is classified as a piece of advice or statement—that some review of legal costs should be made to see if they are in fact appropriate. That is currently being done.

Mr. MAGUIRE. By whom?

Mr. JONES. By the Department's regional office, onsite, to determine whether those costs are appropriate. Those would be a cost to the prime sponsor.

What we would do in that case, if the costs were found to be inappropriate, would be to disallow them from the prime sponsor.

Mr. MAGUIRE. Is the Office of the Inspector General involved in this particular matter in the State?

Mr. STATHAM. The Office of the Inspector General made an investigation of this matter possibly a year ago, Mr. Maguire. I just became aware of the matter this past week in reviewing the file you have there.

I am not totally satisfied with the thrust of the investigation that we made and we are currently reviewing that file.

Mr. MAGUIRE. That is a very interesting statement. You made an investigation. When?

Mr. STATHAM. That took place during the summer of 1979, sir.

Mr. MAGUIRE. Is that investigation complete?

Mr. STATHAM. It was closed in September of 1979, yes, sir.

Mr. MAGUIRE. Now you have looked at that file again and have concluded, what?

Mr. STATHAM. I want to review the file and go into more depth to see if the investigation did go far enough in depth and in the right direction.

Mr. MAGUIRE. You are telling me that you are reopening the investigation.

Mr. STATHAM. No, sir, it is not exactly that. I want to make sure for myself—I was only appointed to this job several months ago. I was totally unfamiliar with this particular matter until just a few days ago. I am now reviewing the file to determine the adequacy of the thrust of the investigation made at the IG Office at that time.

Mr. MAGUIRE. Therefore, we are now going to have an investigation of the investigation.

Mr. STATHAM. In a sense.

Mr. MAGUIRE. When would you anticipate that you could conclude your review.

Mr. STATHAM. Hopefully, in short order. I hope to get word back to you in just a couple of weeks.

Mr. MAGUIRE. Would you be prepared, at some appropriate point, to share the results of that with this committee?

Mr. STATHAM. Yes, sir.

Mr. MAGUIRE. This committee has an interest in it.

Mr. STATHAM. Certainly.

Mrs. COLLINS. Unfortunately, I have to leave because I have a conflict in schedule. I have asked Mr. Maguire to take the gavel and to continue on.

Before leaving, however, I want to submit these questions to you because you will not get a chance to answer them. I would like to

have a response to these before the end of next week if it is at all possible. Joe, you will see that they get in there.

Without objection, they will be included in the record at this point.

[The material follows:]

U.S. Department of Labor

Office of Legislation and
Intergovernmental Relations
Washington, D.C. 20210

Reply to the Attention of:

MAY 28 1980

MEMORANDUM TO: RICK GRAWEY

FROM : SANDY KISLA

As requested, attached are answers to the questions you had delivered to me on May 22, 1980.

Question 1(a)

The General Accounting Office reported yesterday that the number of auditors available to work on the CETA program declined from 140 to 120 over the past several years. We understand that 60 more auditors have been requested. We also know that the former Inspector General testified that with the resources she had she could not meet the audit requirement for CETA. When does the Department intend to have the resources to meet these requirements?

Response

The total number of authorized professional positions in the OIG Office of Audit during fiscal year 1979 was 126. An addition of 59 new positions was funded for fiscal year 1980. This increased the current authorized professional positions to 185, including 6 positions for specialized Automated Data Processing (ADP) audits. We currently have 160 professionals on board. Due to the current hiring freeze in effect, we are uncertain when we can move ahead to fill the remaining 25 positions.

In addition to the staff increase authorized for fiscal year 1980, we received increasing funding to contract for the services of CPA's. Our contract funds were increased from $9,000,000 to $13,800,000, an increase of $4,800,000. Many audits planned with these funds are just beginning. Other audits must still be contracted for in accordance with the Federal procurement regulations. We are moving ahead as quickly as possible in obtaining audits with these funds.

In addition, a number of grantee procured audits are planned in accordance with regulations issued July 29, 1979 (title 41, CFR Part 29-70). For FY 1981, 118 grantee procured audits are planned. To the extent that we are successful in obtaining these grantee procured audits and to the extent they are of satisfactory quality, our resources are considered sufficient to permit audits of CETA prime sponsors on a 2-year cycle in FY 1981. However, it is too early to tell whether the additional resources will in fact fully eliminate delays in audits of prime sponsors.

Question 2

On page 4 of your statement, you report that one of the major responsibilities of a new Independent Monitoring Units (IMUs) established pursuant to the 1978 reauthorization is monitoring prime sponsor assessments of subgrantees. GAO testified that the IMUs that they had observed were not staffed with qualified financial analysts, which meant that they were weak in their ability to assess the internal controls of the subgrantees. Have you directed that IMUs have the capacity to evaluate internal controls of subgrantees?

What is your assessment of this capacity today?

What is your general evaluation of IMU functioning now, and when do you expect that all prime sponsors will have IMUs that are capable of meeting the requirements of the legislation?

Response

The monitoring responsibilities of the Independent Monitoring Unit (IMU) extend to all systems and procedures required by the Act and the accompanying regulations. One of the areas covered by its monitoring is financial management. This financial management monitoring responsibility of the IMU is generally limited to the examination of fiscal recordkeeping systems to determine if the required elements of the system are in place. To accomplish this, IMU staff must be sufficiently knowledgeable with required standards and procedures to identify existing problems or potential ones. They are not expected to be the sole prime sponsor resource in this area. A staff of financial specialists and auditors employed or available to the prime sponsor must continue to have the primary responsibility for monitoring in this area. The monitoring by the IMU is expected to supplement, not replace the activities of the financial specialists. Of course, audits continue to be another effective method for reviewing the internal controls of subgrantees.

Question 1(b)

Given the backlog that now exists, when does the Department expect to finish acting on dated audit findings so that future audits can be resolved and acted upon in a timely fashion?

Response

The Department now expects grant officers to resolve CETA audits on a current basis in accordance with current CETA regulations. Each Regional Administrator has this expectation incorporated in their individual performance standards.

In addition to resolving current audits within the 120-day time limit contained in the regulations, we are expecting grant officers to further reduce audit backlogs that built up during the Economic Stimulus Program. ETA reduced its audit backlog by 18 percent in FY 1979 from 1,420 units to 1,170 audits. We expect a further 25 percent backlog reduction in FY 1980 from 1,170 to 878 audits. We currently plan an additional significant reduction in the backlog in FY 1981.

The Department has taken a number of steps to improve the capability of the IMU staff to review such systems. Foremost among these efforts has been formal training in the area of financial management which was made available to staff from all IMUs. Topics covered by this training included cost principles applicable to all grants to State and local government, recordkeeping requirements and authorized CETA expenditures. These efforts, supplemented by technical assistance specific to a prime sponsor's staff needs, are expected to achieve continued improvements in staff capability.

There has been significant improvement during the past year in the capability of the IMUs to review all CETA required systems, including those related to internal financial controls of subgrantees.

The past 14 months have been a period of capability building. New jobs had to be classified, and additional staff had to be hired or transferred from other units within the prime sponsor's staff. This often necessitated staff training and development. This provided IMU employees with an opportunity to develop skills and acquire knowledge in areas in which many of them were previously inexperienced. This improved capability is supported by onsite Departmental reviews of the IMU activities.

It is our expectation that at the present time almost all prime sponsors have IMUs capable of meeting the requirements of the legislation. We are currently reviewing the IMU operation as part of the Annual Assessment. Should any weaknesses be identified or corrective actions be necessary, they will be addressed prior to FY 1981 funding.

Question 3

While it may be understandable that the Labor Department wants audit findings in a prescribed format, what is the purpose of paying for an audit if the auditor cannot render an adverse opinion when he feels one is warranted?

Response

The audit in question appears to be the result of confusion about DOL policy in effect in 1977 when the audit was made. We agree that the specific audit in question was substandard. Apparently the CPA questioned by GAO attempted to justify his submission of the substandard report by stating that DOL would not accept an adverse opinion. While DOL's audit guide specifically required compliance with GAO Audit Standards (which provides for the issuance of an adverse opinion where warranted), the DOL contract with the CPA could have been interpreted as requiring the CPA firm to make an unqualified opinion. Despite this, it is noteworthy that the OIG has issued numerous audits with adverse opinions. It also should be noted that the OIG no longer uses contracts which contain the questionable language which caused the problem in question. Moreover, the OIG is committed to proper application of professional standards and a quality assurance program to ensure that these standards are followed.

Question 4(a)

What is your estimate of the amount of money that the Department of Labor spends each year directly to obtain audits of prime sponsors?

Response

For FY 1979, actual salaries and expenses for the OIG Office of Audits are approximately $5,251,000. The majority of the staff was devoted to CETA title I prime sponsor audits. Approximately $5,051,000 was also allocated in FY 1979 for contracting with CPAs or State or local auditors to audit title I CETA prime sponsors. For your information, an additional $3,000,000 was also allocated for auditing other CETA funds provided to Indian, migrant, Job Corps and other national CETA grants and contracts.

Question 4(b)

What is your estimate of the amount of money spent by the prime sponsors to obtain audits of subgrantees?

Response

Based on a survey of the Department's regional offices for FYs 1979 and 1980, we estimate that almost $15,000,000 is being expended each year by prime sponsors to audit their subgrantees. Although we anticipate that this amount will fluctuate over time based on the size of the subgrantees audited and the increased costs of audit services, we expect this significant effort to continue as a result of the implementation of unified audit procedures and increased emphasis on oversight of subgrantees.

Question 4(c)

What is the Department of Labor's policy whenever it identifies an unsatisfactory audit that it has purchased from an independent CPA?

Response

It is DOL's policy to reject unsatisfactory CPA audits and to require correction of the defects. With respect to audits performed by CPAs under contract with DOL, our remedies for unprofessional work are based on our direct contractual relationship. With respect to audits performed by CPAs or others for CETA prime sponsors, our remedies arise from the grant terms with the prime sponsor and our right to undertake direct Federal audits.

Procedures for determining the acceptability of financial and compliance audits were published in April 1975. These procedures are to be followed by OIG regional audit offices in reviewing audit reports, supporting workpaper files, and conducting on-site reviews at prime and subsponsor locations.

Question 5(a)

DOL reportedly estimates that 10 percent of CETA participants do not qualify. What action does DOL take when it determines that unqualified participants have been enrolled in the program?

Response

With the reenactment of CETA, a system for determining and verifying participant eligibility was instituted. Part of this system is a review of all applications within 30 days of enrollment. This review is to determine that the applicant is eligible based on the information in the application. Another part of the system is an in-depth quarterly verification of applicant eligibility on a sample basis. The verification is of participants enrolled during the previous quarter. In this process participants must provide documentation to suport their application. If a participant is found ineligible through either process he/she is terminated from the program. Depending on the circumstances and the response of the prime sponsor in resolving eligibility issues, costs associated with the ineligible participants may also be disallowed.

Question 5(b)

What figure does DOL consider to be an irreducible minimum for ineligible applicants in the CETA program?

Response

The eligibility system instituted with the reenactment of CETA requires that corrective action be undertaken if the ineligibility rate exceeds 5 percent of the sample verified. The eligibility determination and verification system described above is designed to alert the prime sponsor to any weaknesses in its system as well as to identify possible ineligible participants.

Question 6

What would you point to today as evidence of high-level emphasis on internal controls in the Labor Department and on an increased and obvious concern to ensure that the monies under this program are properly spent?

Response

As indicated in our response to the Committee report "Department of Labor Administration of the Comprehensive Employment and Training Act," there is full support from the highest levels of the Department for any actions which are deemed necessary and appropriate to ensure that CETA monies are properly sent. Specifically, the Department expects regional offices to require corrective actions whenever deficiencies in programs are identified. Funds are withheld where necessary until such corrective actions have been taken or the Department is satisfied that the intended results are being achieved. The Department withholds designation of applicants for prime sponsorships where there are substantial questions regarding program integrity. The Department requires the repayment in either funds or services of disallowed costs, and the reallocation of underutilized funds. Additionally, the Department is developing a policy which provides for specific actions where prime sponsors continuously receive unacceptable ratings on their annual assessments. These actions will include the termination of a jurisdiction as a prime sponsor where the jurisdiction receives unacceptable ratings in the same programs over a fixed number of years.

The Department's efforts to improve the internal controls in the CETA system, which have been initiated and supported by the top management of the Department and ETA, are indicated by a variety of new initiatives that have been undertaken.

First, in order to improve the management of federally-funded employment and training programs, ETA has established an Office of Management Assistance (OMA). That Office is now in its final stages of designing a Comprehensive Management and Training System (MATS). The

planned result of MATS is to be able to respond promptly and effectively to the management needs of CETA prime sponsors, State Employment Security agencies, and other parts of the employment and training community.

Through the OMA there are currently a variety of programs being offered and developed to improve the managerial and professional capability of staff at the grantee and Federal level. For example, prime sponsor staff have been trained in areas such as "Subgrantee Audit Resolution" and "Debt Collection." Prime sponsor to prime sponsor technical assistance is also being expanded. ETA regional office grant officers and their deputies have been trained in "Grants Management." Later this summer a 5-module training program for ETA Federal representatives will be initiated. In addition, plans for mid-level management training are now underway. ETA regional offices are establishing a broader base of services through contractors and universities. CETA funds also are being used to increase the number of State training centers which provide the mechanism for the delivery of training to be closer to the local level. There is also an expanded use of Governors' Special Grants for State-wide services.

Another example of the high-level management emphasis on internal controls has been the Department's program to reduce our audit resolution backlog. Our success in reducing the backlog in audit resolutions has resulted from the following seven point program to operationalize the "top priority" given the project in March of 1979.

-- Seven additional ETA staff were diverted from other duties at the start of FY 1980 to form the heart of a task force to reduce National Office audit backlogs.

-- The efforts of these seven staff members were supplemented with 8A contractor assistance.

-- ETA regions received ten additional ceiling slots for FY 1980 earmarked for audit resolution.

-- Regions also received funds to supplement their Federal staff effort.

-- Each Regional Administrator and the ETA Comptroller has an audit standard in their FY 1980 SES performance standards.

-- Monthly reports of audit resolution performance are prepared and widely circulated in ETA.

-- A series of training programs and technical assistance guides have been provided to ETA staff in the last year to improve audit resolution performance.

In a period where ETA staff resources overall have decreased 10 percent (since early FY 1979), we believe that the additional staff and other resources devoted to this program is highly significant.

Finally, as mentioned in the testimony of Mr. Jones before the Committee, a Department of Labor Audit Review Committee was formed to make recommendations to deal with the problems that have been identified with the Department's audit process (including problems raised by the Government Operations Committee). The Secretary has recently approved recommendations of the Audit Review Committee.

We believe that these and other actions indicate the continuing support of top Departmental management for measures to ensure that the integrity of the CETA program is maintained and that effective management and internal control systems are established.

Question 7

We heard yesterday from a subgrantee that appears to be doing a good job of training hard-core unemployed for productive work at good wages while maintaining an effective system of internal controls. Is there anything in the CETA system that serves to reward subgrantees who perform at higher levels? Does DOL recognize the increased effectiveness of those who have good placement rates and exhibit a high degree of fiscal accountability?

Response

The Department of Labor is reviewing the possibility of implementing a system for recognizing those prime sponsors which perform in an exemplary manner. While no decision has been made regarding exactly what form such recognition should take, it is the Department's intent to implement such a system as soon as possible.

The system would not, however, provide for specific recognition of subgrantees and contractors, although the Department may decide to acknowledge the work of subgrantees and contractors in its recognition of a prime sponsor. Since the Department is not a party to the subgrant or contract between the prime sponsor and the subgrantee or contractor, we feel any official recognition of a subgrantee or contractor should be provided by the prime sponsor.

Question 8

You mentioned on page 6 that subgrantee audits are the responsibility of the prime sponsor with oversight by the Department of Labor. Specific actions open to a grant officer include imposition of sanctions if deficiencies are not corrected and action against the grantee if it fails to collect a debt. Can you give us an idea of how often such sanctions have been employed since the issuance of your instructions in January of this year?

Response

Since the issuance of the instructions regarding the resolution of subgrantee audits in January of this year, there have been a limited number of cases where sanctions have been applied against prime sponsors as a result of the resolution and subgrantees audits. Specifically, the Department can cite three cases in our New England region and other in Our Mountain States region involving a total of approximately 1.8 million in disallowed costs. In addition, preliminary actions are now underway against several Pacific Coast sponsors and several additional cases are pending before Administrative Law Judges in our Northwestern region.

While the total numbers are not large, the importance of having specific procedures in place cannot be underestimated. Simply having the procedures removes any doubts about the process [and thus] serves to discourage prime sponsors from not taking action. Moreover, the cases listed above themselves serve as deterrents since they demonstrate the Department's willingness to take action. In addition, there have been several cases where the threat of the Department taking action has spurred the primes to take action themselves rather than be forced to do so by the Department.

Question 9

GAO reported that in the regions it examined, subgrantees audits were handled differently; some regions kept much better track of them than others, and in some cases, the regions appeared to have little knowledge or interest in subgrantee audits. Do you agree with this characterization? When can we expect that all regional offices will adopt a consistent policy toward subgrantee audits, insuring that they are completed and submitted as required?

Response

We recognize that there is some disparity between regions in the way subgrantee audits have been handled. However, we disagree with the characterization that the regions have little interest in subgrantee audits. As a result of limited staff and the thousands of subgrantee reports received, some regions have not maintained sufficient data on subgrantee audits. All regions, however, use and rely on subgrantee audits in conducting audits of prime sponsors.

All regions are required under current OIG policy to determine the acceptability of any previously performed subgrantee audits and to rely on those audits in conducting an audit of the prime sponsor. All regions are also responsible for determining that an acceptable sample of subgrantees are audited by prime sponsors in accordance with current regulations (41 CFR Part 29-70). In addition, as procedures for unified audits are more widely implemented (32 are planned for FY 1980 and for FY 1981), subgrantee audits will be done concurrently and this problem won't exist.

Question 10(a)

We understand that any subgrantees paid over 100,000 dollars is required to be audited, and those receiving smaller sums are audited on a random basis. What is your estimate of the number of the required audits that are actually completed?

Response

Regulations issued July 20, 1979 eliminated the requirement to audit all subgrantees paid over $100,000. 41 CFR 29-70.207-3 contains the current requirement which simply states:

> "The recipient shall conduct an independent audit of a sample of its subrecipients and contractors at least once every 2 years. The sample selected shall be coordinated with and approved by the OIG."

According to GAO's figures as well as our own data, approximately 70 percent of all subrecipient funds allocated since the inception of the CETA have been audited.

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Question 10(b)

How many audits of this nature did you receive last year [subgrnatee audits], and how does that compare with the number of audits that you calculate should have been conducted?

Response

During FY 1979, we received 9,678 subsponsor reports and reviewed 8,175. Through the second quarter of FY 1980, we received 6,133 and reviewed 4,733 subsponsor reports. An estimate of the total number of subrecipients for which audits should have been conducted is not readily available.

Question 11

In its statement (page 9), GAO described how a Labor employee fraudulently obtained $13,000 over 18 pay periods by adding his and other names to supplemental payroll registers. We understand that the principal was given a jail term and his confederates received lesser punishments. Are any of these individuals currently employed by the Department of Labor?

Response

Yes, the individuals are still employed by the Department, though not in the same capacities which they encumbered prior to the incident. Disciplinary action, consisting of demotions and involuntary reassignments, was taken with all involved employees. Additionally, restitution of funds is being made. Some employees remained in their previous office; however, their responsibilities were diminished in scope to preclude the possibility of a recurrence of this type of situation. Those employees will also be transferred to other offices in the near future. These actions are not in violation of any law or regulation known to the Department and are consistent with policy concerning the rehabilitation of individuals in such circumstances.

Question 12

GAO reported than an imprest fund at DOL was "short" some $8,000 (first page, attachment 7), and that Labor auditors were working on this at the time of GAO's review. When was this shortage discovered? (We have a DOL report on 1 of 2 shortages discovered in January, 1979--is this the other?) Did DOL discover the shortage? If the shortage was noted in January, 1979, why has it not been completely resolved by now?

Response

The shortage referred to by GAO involved the Travel Imprest Fund and was discovered first by Treasury on January 30, 1979. At the request of management, we determined that the actual shortage was $8,202. We also audited the Small Purchases Imprest Fund and found it to be $491.00 short. The report on the Travel Funds was not released pending the Office of Investigations review. Their review was completed on May 21, 1980 and we are in the process of finalizing the report.

Mrs. COLLINS. In addition, there are a number of questions that this subcommittee wants to ask the administrator himself and we will expect that you will prepare him that a letter will be going out to him today asking him to come and testify before the subcommittee.

I will now pass the gavel. Excuse me, please.

Mr. MAGUIRE [presiding]. As I understand it, Mr. Statham, the OIG has already indicated that a further review by ETA would be advisable on this matter, but ETA tells us that they are awaiting further clarification from OIG. Is that roughly where we stand?

Mr. JONES. Excuse me. That is not true, Congressman. We are moving ahead with that review. We have also asked OIG for clarification of their comments, but we have moved ahead.

Mr. MAGUIRE. Perhaps you can tell us where that review stands?

Mr. JONES. It is in process now.

Mr. MAGUIRE. Of what does it consist? What are the issues?

Mr. JONES. It is simply people going onsite to review the costs that were charged as legal costs to determine whether they are allowable or not.

Mr. MAGUIRE. Is this only in Hudson County, or is it in Camden and other locations?

Mr. JONES. It only concerns the question that was raised with that one particular audit. Any other questions relative to the firm involved would be part of Mr. Statham's jurisdiction.

Mr. MAGUIRE. All right. It appears as though the Department of Labor, as of October 5, 1979, already came to a conclusion on this matter. At that time Assistant Secretary for Employment and Training Ernest Green wrote a letter to Mr. Krivit which constituted a deep apology. The letter indicated that improper conduct by Department of Labor personnel had included suggestions that your activities could be illegal if CETA funds were used, which suggestions reached the press, as well as efforts to pursuade cities and counties you represented that they would be better advised in dealing with the Labor Department to either dispense with or minimize your services.

It goes on to say that the improper conduct stemmed from an incorrect view on the part of various ETA employees as to Department of Labor policy.

I would like to ask you, what is the correct view which is not really defined in this letter, as opposed to the incorrect view which is mentioned here?

Mr. JONES. I described it in my testimony, but would be happy to provide for you the statement our regulations which authorizes legal costs. That would be the correct view.

You are correct in suggesting that the letter was sent to Mr. Krivit because questions had been raised both publicly and privately about that. That is not an unusual response when an investigation has not determined that there was anything improper.

Mr. MAGUIRE. But now we are reopening the investigation, in effect, after the letter was sent.

Mr. STATHAM. I just want to review the file and be satisfied with the results.

Mr. MAGUIRE. The thing that concerns me here is that the Congress of the United States passed, and it was signed into law by the

President, a rather specified set of requirements with respect to legal fees which in fact you cite in your testimony. What concerns me about the letter that was sent are two things, the most important of which is that the letter that was sent from Mr. Green to Mr. Krivit does not seem to me to clearly make a distinction between those things that would be permissible under the law and those that would be precluded under the law.

You are nodding your head affirmatively. Do you agree?

Mr. JONES. Yes, absolutely. I think the letter is not a legal document nor would it pretend to be one.

Mr. MAGUIRE. In fact, it would seem perfectly proper for a Department of Labor employee, would it not, to advise a prime sponsor as to what would and would not be permitted under the law?

Mr. JONES. From a regulatory standpoint, if that is all that had been done, absolutely.

Mr. MAGUIRE. It would, presumably, also be proper for a prime sponsor to be advised by DOL as to what kinds of things—particularly since we had been discussing in this committee and DOL had been discussing internally the matter of whether lobbying activities could be reimbursed or whether administrative activities could be reimbursed.

Would it not be perfectly proper for a DOL representative to discuss with a prime sponsor those categories of activity and the possibility that some might fall within the law and some might fall outside of the law?

Mr. JONES. Absolutely.

Mr. MAGUIRE. You see, this is what I am concerned about. I hope, Mr. Statham, in your review of the file that you will also concern yourself with that point because that really is the point. Unfortunately, Mr. Green's letter, aside from being what I would say was a rather uncritical apology in the sense that it does not deal with the legal issues which are the issues at stake here——

Mr. JONES. Excuse me. I do not think that is the case. I think there is a difference between your characterization of the allegations that were made some of the statements that were made by Federal staff in this case. Significant personal statements were made. In that case, I do not think it is proper for our staff——

Mr. MAGUIRE. I understand that there were some additional allegations made beyond those which would be covered by the description of a proper DOL discussion with a prime sponsor.

I am not in a position—I have not personally reviewed the file—to make a judgment with respect to whether or not such matters were or were not done. If they were, of course, there should be proper action taken.

I hope Mr. Statham will satisfy himself on that point as he reviews the file.

However, what I am concerned about here is that on one hand we have not yet, 3 years later or at least 2 years later, come to any judgment on the matter of whether or not those vouchers were in fact allowable or not allowable expenses, yet in a very short period of 3 or 4 months an investigation is conducted after the party we are discussing here complained to DOL and a letter is sent on very short order, not only indicating that Labor Department personnel have acted improperly—without specifying what those improper

ions were—but also indicating that the judgment of the Depart-
nt is that there is no reason to believe that you have represent-
your clients in other than an honorable and proper fashion.
In the event there should be any recurrence, et cetera, please
ing the matter and so on to the attention of the Solicitor.
One wonders how it is that DOL can be so expeditious in sending
is letter which appears to bring the matter to a close on one
nd, while it still remains to be seen whether or not the vouchers
nich gave rise initially to the complaints and which even gave
se to the actions taken by the Congress on this matter are in fact
lowable or disallowable.
Does that not strike you as anomalous?
Mr. JONES. It strikes me as a combination of two different things.
he question of the investigation with regard to the Krivit situa-
on does not relate specifically to the one audit which we are
eviewing.
Mr. MAGUIRE. It does give rise to the question as to who is
nning the Department of Labor. I really wonder when a letter
ke this is sent so expeditiously which provides, in effect, a piece of
aper that he can wave anywhere and say, "Everybody thinks I am
errific at the Department of Labor," whether we are meeting our
bligations to protect the public money.
I am going to come back to this, but I do have to yield to my
olleagues because I have exceeded my time.
Mr. BACCUS. May I make one comment?
Mr. MAGUIRE. Yes, you may make your comment and then I will
ield to my distinguished friend from Virginia.
Mr. BACCUS. The focus of the letter was on activity which was in
xcess of what the regulations and the act provided for. It was not
ntended to put Mr. Krivit or anyone else at an advantage in
ecuring business or clients.
To the extent that Department of Labor personnel or ETA per-
sonnel acted in excess of what the regulations provided, they were
required to act consistently with that. In other words, the provision
to which you refer, 123(f)(2), that the Congress put into the act
provided some standards for how attorneys were to be secured by
prime sponsors——
Mr. MAGUIRE. Why would it not have been sensible to include
that language in this letter so that anyone looking at the letter
would know that in fact there were certain things that might be
disallowed or unallowable under the law as well as certain things
that would be allowed.
This is not only legally an improper document. It is confusing
potentially. I think ultimately it is not one that is consistent with
the vigorous enforcement of the law.
Mr. BACCUS. That document was not intended to be any type of
legal document.
Mr. MAGUIRE. Mr. Butler?
Mr. BUTLER. I thank you for yielding but I am fascinated by this
exchange. If I may have some gratuitous time here—Mr. Baccus,
what was your role in writing this letter?
Mr. BACCUS. Normally letters like that or items going out are
run through the Solicitor's office. They are cleared by us.

Mr. BUTLER. I mean, you are quite defensive about this thing. Did you draft it? Did you see it before it went out or do you recall seeing it?

Mr. BACCUS. I am sorry about my appearance. I am not defensive about it in that sense. We did not write that letter as I recall but we do look at documents as they go through. We do not see every document but we do review some. I think on its face—I did not intend to be defensive. I just wanted to clarify——

Mr. BUTLER. Do you have any recollection of having seen the letter before it went out?

Mr. BACCUS. I believe I have seen the letter. I cannot be positive. There is a good chance that we may have seen the letter or that I may have seen the letter before it left.

Mr. BUTLER. Now, if I may start in on my time. [Laughter.]

Getting back to our Nation's Capital, I understood, Mr. Stepnick, that in response to the question you said that all but 14 of the prime sponsors have been audited. Did I hear your statement correctly?

Mr. STEPNICK. Yes, sir.

Mr. BUTLER. I have a list here of CETA prime sponsors not audited as of March 31, 1980—4 in the Chicago region, 10 in the Dallas region. It that correct?

Mr. STEPNICK. Yes.

Mr. BUTLER. Now, the District of Columbia audit has not been completed, has it?

Mr. STEPNICK. No.

Mr. BUTLER. Why, then, is it not on that list?

Mr. STEPNICK. Because it is in process, sir.

Mr. BUTLER. How many have you excluded from this year's list because of being in process?

Mr. STEPNICK. Let me see if I have that information here.

Mr. JONES. May we provide that for you?

Mr. BUTLER. Can you give me a rough idea? Are you really snowing us? Are there really 100 of them you have not told us about? [Laughter.]

Mr. STEPNICK. I would not want the record to indicate that I was snowing you.

Mr. BUTLER. It might be a little rough in May and June, but it could happen.

Mr. STEPNICK. At the end of fiscal year 1979 there were 30 that had never been audited. This was on the basis of completed reports.

Mr. BUTLER. At the end of 1979 there were how many that had never been audited?

Mr. STEPNICK. There were 30. Now that has been reduced to 14.

Mr. BUTLER. How many were in process at that moment—that is prime sponsor audits?

Mr. STEPNICK. I do not have that specific number as of the end of fiscal year 1979. On March 31, 1980, there were about 156 in process.

Mr. BUTLER. So when you talk about 14 audits of prime sponsors that have never been done, that is in addition to 156 that are in process at the moment.

Mr. STEPNICK. No, sir. Some of those that are in process are the second round of audits.

Mr. BUTLER. I see. I think you ought to specify exactly how many you are talking about that are either in process or have never been audited.

Mr. STEPNICK. I will be glad to give you a full report, sir.

Mr. BUTLER. I do not care about a full report. Just give me a list.

Mr. MAGUIRE. Without objection, when the list is received it will be made a part of the record at this point.

[The material follows:]

As of March 31, 1980, there were initial audits of 16 Prime Sponsors in process. These prime Sponsors included: District of Columbia; Northern Virginia Manpower Consortium, Va.; DuPage County, Ill.; Sangamon-Cass Consortium, Ill.; Shawnee Consortium, Ill.; Livonia City, Mich.; Monroe City, Mich.; St. Claim County, Mich.; Ann Arbor City, Mich.; Green County, Ohio; Portage County, Ohio; Central Ohio Rural Consortium, Ohio; Cleveland County, Okla.; Capital Area Consortium, Tex.; South Plains Consortium, Tex.; Portland City, Oreg.

In addition to the 16 Prime Sponsors listed above there are 13 which have never been audited. Audits of these Prime Sponsors, which are listed below, are scheduled in Fiscal Year 1980, but have not yet been started. Tippecanoe Co., Indiana; La Porte Co., Indiana; Minnesota Rural CEP, Minnesota; WOW Consortium, Wisconsin; Calcasieu/Jefferson Consortium, Louisiana; Comanche Co., Oklahoma; Oklahoma Co., Oklahoma; Oklahoma City Consortium, Oklahoma; Tulsa Consortium, Oklahoma; West Central Texas Consortium, Texas; Pasadena City, Tex.; East Texas MA Consortium, Texas; Balance of Texas, Texas.

Mr. BUTLER. Returning now to the District of Columbia audit, how many years are you considering in the District of Columbia audit that is in process?

Mr. STEPNICK. It will cover at least the last 3 years—1977, 1978, 1979. [See Department of Labor corrected response below.]

Mr. BUTLER. Do you wait until you get the audit for all 3 years in hand or do you get them 1 year at a time? How does that work?

Mr. STEPNICK. In a situation like this where we are so far behind we will combine the results.

Mr. BUTLER. Do you have a timetable as to when we can expect this audit?

Mr. STEPNICK. I will provide that, sir.

[The material follows:]

The field work on the audit of the District of Columbia prime sponsor is currently in progress. We expect a draft report by August 15, 1980 and expect to release a final report by September 30, 1980. We have budgeted the cost of this audit, which will be completed by a CPA firm under contract with the OIG, at $222,243. By way of correction, the audit of the District of Columbia prime sponsor only covers fiscal year 1979. However, we are seeking subrecipient audits for fiscal years 1977, 1978, and 1979.

Mr. BUTLER. Do you have a timetable?

Mr. STEPNICK. Yes.

Mr. BUTLER. You just do not have it at your finger tips.

Mr. STEPNICK. Yes, sir.

Mr. BUTLER. Can you give me a rough idea? I will put it this way. What would you consider a reasonable timetable?

Mr. STEPNICK. It is pretty much dependent upon whether or not we can still get the unified audit idea started. I would really like to do that in the District of Columbia. The poor record that they have with respect to auditing subs seems to me to call for particular attention to the idea of getting the subs audited. The best way we can do that at this point in time is through the unified audit process.

I think that if we can achieve that, any delays that are associated with ending the prime sponsor audit would be more than compensated by the benefits of unifying it with the subsponsor audits.

Mr. BUTLER. I can agree with you, sir, without accepting your response. I have in my hand here a letter dated October 10, 1978, from the Acting Chief, Audit Division, to Mr. Wilkins of the Department of Manpower and Employment, and so forth.

On page 2 it says: "We did not audit the District of Columbia CETA program due to the lack of audit coverage of the subgrantees." This is not a new problem, this lack of cooperation or inability to audit or a failure to audit the subgrantees.

Mr. STEPNICK. The record shows that there have been discussions on it continuously for the last 4 to 5 years.

Mr. BUTLER. This showing in the record of continuous discussion, does that reflect favorably or unfavorably on the Department of Labor?

Mr. STEPNICK. I would say that it reflects unfavorably on the Department of Labor——

Mr. BUTLER. Indeed, it does.

Mr. STEPNICK [continuing]. To the extent that there has not been a resolution of the question before this point in time.

Mr. BUTLER. What sanctions have you imposed to encourage resolution?

Mr. STEPNICK. So far as I know—and, as I said, I am relatively new to this—there have been no sanctions.

I am particularly concerned about this problem because the unified audit concept will not work unless we have cooperation in the audits of the subs. The audit process can be completely frustrated if a prime sponsor decides not to audit itself under the new regulations which allow grantee-procured audits.

Mr. BUTLER. Would it not be terribly frustrating to the prime sponsor if you cut off his money?

Mr. STEPNICK. Yes.

Mr. BUTLER. Do you not think that perhaps, if you imposed a few sanctions on the prime sponsor, he would cooperate in this regard?

Mr. STEPNICK. The Office of Inspector General will certainly call to the attention of the Department any cases where we feel such serious sanctions or other actions are required.

Mr. BUTLER. Have you recommended any sanctions in the instance of the District of Columbia?

Mr. STEPNICK. I spoke with the Regional Administrator of the Employment and Training Administration last week and we were discussing specific things that we think should be done in order to——

Mr. BUTLER. You have not gone so far as to write a letter, have you?

Mr. STEPNICK. There have been any number of correspondences between the Department and——

Mr. BUTLER. I mean, suggesting sanctions.

Mr. STEPNICK. No, sir.

Mr. BUTLER. Do you not think it is time you moved into that area?

Mr. STEPNICK. We will consider that, sir.

Mr. BUTLER. That would delight me.

Just for the record, how many subcontractors have been audited n the District?

Mr. STEPNICK. There have been 19 audits.

Mr. BUTLER. There have been 19 audits of subgrantees in the District of Columbia.

Mr. STEPNICK. Yes, sir.

Mr. BUTLER. And how many subgrantees are there?

Mr. STEPNICK. I do not have the specific number here.

Mr. BUTLER. Could you give it to me within a thousand or two? Approximately how many are there?

Mr. STEPNICK. There are 293 that we know about—that is, 293 subgrantees that we know about—involving fiscal years 1977, 1978, and 1979. The total subgrant funds would be around $30 million so far as I know at this point in time.

Mr. BUTLER. That is not a very big percentage of audits, is it?

Mr. STEPNICK. I am not sure I understand.

Mr. BUTLER. You have only audited 19 of 293 grantees.

Mr. STEPNICK. That is right, and the lack of audit coverage goes back to the inception of the program.

Mr. BUTLER. I have one in front of me. This audit is on the District of Columbia Institute for Careers in Tourism. This organization received $398,000 to train tour guides from July 1977 to October 1979.

In light of some of this group's activities, it does not appear that monitoring took place at all. Of the total contract, more than $127,000 was questioned—that is, out of $398,000—because it was for expenditures to another organization controlled by the same people.

In addition to this self-dealing, the auditors found the following questionable expenditures: $10,000 for administrative costs in excess of the 15-percent ceiling; $8,000 excessive telephone and postage; $3,800 for lease of a 1978 Mercury Monarch—and we are talking about a 1977 training program—$1,300 for limousine rental for staff use; $1,089 for graduation ceremonies at the International Club and Hilton.

Other findings by these auditors include happy hours at the Red Lion and the Black Tahiti paid for by the Institute, limousine trips to the airport for the executive director's trip to Jamaica, and work by participants not related to the program. It is hard for me to believe that this could have been allowed to happen but it shows me that we have certainly been lax in watching the District of Columbia prime sponsor and that they have been lax about the subcontractors.

So far, with reference to this particular audit, none of these costs have been disallowed or collected. Is that correct?

Mr. STEPNICK. The information that I have on it, sir, is that the report was forwarded by our office to the Employment and Training Administration who has the responsibility for audit resolutions on March 20, 1980.

Mr. BUTLER. Not until March 20, 1980?

Mr. STEPNICK. I do not have the specific date on which the audit report was issued, so I do know whether or not there is an unreasonable length of time involved.

Mr. BUTLER. You do know the amounts involved are insignificant compared to the total picture in the District of Columbia.

The auditor's report is dated June 1, 1979, for your information.

I guess my real question is: What assurance does this panel have that this sort of red flag has told you something and that you are going to do something about it?

Mr. KOMAREK. Mr. Butler, I would like to address that point and also some of the points that Mrs. Snowe made earlier. ETA has in fact, I think, made some significant advances in the past year in terms of resolving questioned costs, checking those audits, and doing something with them.

In the first 7 months of this fiscal year we have resolved 192 audits, which is more than we resolved in the entirety of fiscal year 1979 and also in the entire period of 1975 through 1978.

The way we have done it is that we have added, in spite of a 10-percent reduction in overall ETA staff, we have added seven Federal staff persons to the staff of the national office and one additional Federal staff person to each of the regional offices.

Mr. BUTLER. If I may, what do you mean by resolving the audits?

Mr. KOMAREK. After an audit is issued by the Inspector General it comes in to the grant officer.

Mr. BUTLER. Are you talking about prime sponsor audits only?

Mr. KOMAREK. I am talking about prime sponsor audits and any audits of a subgrantee which the Inspector General determines to be significant. They have criteria in terms of large dollar amounts or something that should be brought——

Mr. BUTLER. You have resolved 197 of them——

Mr. KOMAREK. 192.

Mr. BUTLER [continuing]. This year.

Mr. KOMAREK. Yes, sir.

Mr. BUTLER. How many unresolved audits are there on your desk?

Mr. KOMAREK. At this point in time, sir, we have some 1,155 outstanding audits to be resolved. We developed a large backlog in audits during the PSE buildup when a large amount of ETA staffing was diverted away from this particular activity into building up the program.

However, as I reported to Mrs. Snowe earlier, we have made progress in the last year and a half to bring down that backlog, and as I reported earlier, we reduced it by 18 percent last year and so far in this year to date we have reduced it by an additional 7 percent.

I have every anticipation of accomplishing a total 25-percent reduction in the audit backlog this fiscal year.

Mr. BUTLER. I have one final question.

Did you want to respond first?

Mr. JONES. I just wanted to respond to an earlier part of your question in terms of this particular audit in the District of Columbia.

As Mr. Stepnick said, on March 20 they provided that to us. The Employment and Training Administration has formally gone to the District and asked for a report from them on the determinations and findings. That is due us in the next 2 days, on the 23d of May, I believe.

Mr. BUTLER. Will you keep us posted on that?

Mr. JONES. Certainly.

Mr. MAGUIRE. We will include that information in the record upon its receipt.

[The material follows:]

With regard to the status of corrective actions taken to resolve questioned costs of $127,818.64 for the D.C. Institute of Careers in Tourism, the subgrantee currently is under investigation by the Office of the U.S. Attorney for fraud involving Federal funds. Pursuant to the investigation, the D.C. Department of Labor has been instructed to forward all pertinent documents relative to the subgrantee to Mr. William D. Pease, Assistant United States Attorney, Office of the U.S. Attorney. Until there is a final resolution of the fraud investigation, there is no further action that the D.C. Department of Labor can take in connection with this subrecipient.

Mr. BUTLER. That is a pretty long period of time between the Inspector General's desk and your desk, is it not?

Mr. JONES. No, sir, It was a long time between the auditor's desk and the Inspector General's desk—2 months.

Mr. BUTLER. The audit was dated June 1.

Mr. JONES. We received it in March.

Mr. BUTLER. Where did it go on July 1, 1979?

Mr. STEPNICK. I cannot answer offhand just where that report was during the date that you have and the date that we submitted it, but I will certainly be glad to answer that question when I check our file on it, sir.

Mr. BUTLER. All right. I want to know the whole timetable. It seems to me that there is a delay, and that it might have spent some time on the wrong desk. I am not sure it went to the right person. If you will put it all together for me I will take another look at it.

It goes back to what I said earlier about the fact that if I had had your statement earlier I might have been able to go through these things a little bit better.

Mr. MAGUIRE. Without objection, that material will be included in the record.

[The material follows:]

The CPA audit report of this subrecipient, dated June 1, 1979, was not received in the OIG National Office until July 27, 1979. It was forwarded to our Philadelphia OIG Office on February 8, 1980 and to ETA on March 20, 1980. The OIG processing delays were due to an unusually heavy workload in the National Office during last summer.

Mr. MAGUIRE. Is the gentleman ready to defer to Mrs. Snowe?

Mr. BUTLER. I am ready.

Mr. MAGUIRE. Mrs. Snowe.

Mrs. SNOWE. Thank you, Mr. Chairman.

Mr. Jones, in your exchange with Mrs. Collins you were discussing the effectiveness of your system. I presume that you feel that your system is effective.

Mr. JONES. The major question I was raising was only to keep in proportion what we are talking about. I do not believe that the systems should be classified as being fraught with fraud and abuse types of problems. We do have serious problems of mismanagement.

Mrs. SNOWE. Of that there is no question. I suspect and perhaps you may be able to apprise this committee—is the GAO report citing isolated instances and examples of fraud and abuse?

Mr. JONES. First, I would not suggest that the GAO report, which we have not seen yet——

Mrs. SNOWE. Why have you not seen it?

Mr. JONES. They have not given it to us.

Mrs. SNOWE. You could have been present at the hearing yesterday to listen to the testimony. No one was present from the Department of Labor.

Mr. JONES. The Department of Labor was present yesterday.

Mrs. SNOWE. No one made known their presence when Mr. Butler asked it anyone was here from the Department of Labor.

Mr. JONES. I do not think that the people who were here felt that they were official spokesmen for the Department. Had we been invited to have official spokesmen here at that point we would have.

We have copies of their testimony. We reviewed that, but a report has not even been written by GAO at this point.

Second, when that report is written then some kind of an analysis of the things that are in it must be done. I would suggest strongly to you that allegations that are there at the moment would have to be looked at in some depth before you could assume that there is any fraud or any substance to the points that they make.

Mrs. SNOWE. We are not assuming. They seem to be very precise examples, Mr. Jones.

According to the General Accounting Office, yesterday in their testimony, they did an interview with someone in the Department of Labor at the conclusion of their work.

Mr. JONES. They met with us and they would agree specifically that those are not specific allegations. They are things that the record might point up. That is all.

They have to be looked at in some depth. After that is done——

Mrs. SNOWE. By the time you get around to doing it 5 years will have elapsed.

Mr. JONES. No——

Mrs. SNOWE. I think one of the problems that you are omitting here is the human factor. You can have a great system. It can be great on paper, but it is you and the rest of your Department that assume responsibility for leadership and discharging your responsibilities, making sure that this money is spent wisely and efficiently and according to law. That certainly has not been done in many instances. That can be documented by a myriad of information and examples that were indicated here today, in GAO's testimony, and in Mr. Maguire's statements.

Now, to get to these disallowed costs. You have the authority within your Department to reduce a prime sponsors' grant. For example, if you indicated that x amount of dollars would be categorized as disallowed costs, you can reduce their grant by an equivalent amount.

Do you ever do that?

Mr. JONES. That is one possible sanction.

Mrs. SNOWE. Forget about the possibilities. Do you use it?

Mr. JONES. I have to——

Mrs. SNOWE. Mr. Stepnick was saying that "we will give this consideration" in response to Mr. Butler's question. We do not want consideration. We want action.

Mr. JONES. The answer to the question is that we do require payback of funds. We would like not to reduce the grant funds because that means that the people receiving services in that jurisdiction do not receive the services and I do not think that is the best way to do that.

Mrs. SNOWE. Your lack of vigorous enforcement of the law and rules and regulations set forth by your Department also hinders the people who are qualified under the program.

There has been a lot of debate here in the Congress about the CETA program. If there is one program that I hear most frequently about in the mail from my constituents it is the CETA program. I suspect you could take a poll of all the Members of the Congress and find out the same thing so there is obviously something wrong.

In the report done by this committee last November, we said that "The Department allows the offending prime sponsor to replace the disallowed costs by allocating local moneys from employment and training programs, thus augmenting Federal allocations."

Do you allow that?

Mr. JONES. Yes.

Mrs. SNOWE. You allow taxpayers' money to replace disallowed costs? You mean, the individuals do not pay it back?

Mr. JONES. The individuals?

Mrs. SNOWE. I mean, the prime sponsors. The prime sponsors are individuals.

Mr. JONES. The prime sponsor is the city.

Mrs. SNOWE. That is right. You allow them to do that?

Mr. JONES. If we require the city in the case of the District of Columbia to repay the Federal Government or to put the money into the grant and provide services to individuals, it is the same taxpayer dollar any way you get restitution.

Mrs. SNOWE. What about individual cases—that is, individual offenses with disallowed costs?

Mr. JONES. Disallowed costs most prominently come up where an ineligible recipient has been hired on some grounds. That is not the individual's fault. That is the city's fault for hiring them.

Mrs. SNOWE. What about the case of travel expenditures by an individual who submits vouchers which in fact are not proper? They find out that they are improper and you have already made the reimbursement. What do you do in that case?

Mr. JONES. I will let Mr. Baccus deal with the legal side of it, but in the case where an individual has fraudulently misappropriated funds I would expect sanctions would be in order. I am not that familiar with that.

Mr. BACCUS. Let me try to answer both questions.

In the process of making determinations by the Regional Administrator and in the process of review by the office of administrative law judges, prime sponsors are ordered to pay back money or their grants will be reduced by the amount of money involved.

Specific cases can be identified. There are a number of them pending right now. I can think of one offhand that involves a large sum of money in Charlotte, North Carolina. I think it was roughly

$900,000. They have appealed that to the U.S. Court of Appeals and that is pending right now for briefing and oral argument.

In terms of individuals who have submitted fraudulent vouchers or what have you, first of all they would be subject to criminal penalties under 18 U.S.C. 1001 for fraudulent submissions to a Federal program. Second, that type of information would be referred to the Inspector General and to the U.S. Attorney's Office.

Mrs. SNOWE. Do you take actions against those individuals?

Mr. BACCUS. Our role in the current setup of the Inspector Generals Act is to refer those things to the Inspector General and try to deal with the U.S. Attorney's Office and the Department of Justice in recommending prosecution of those types of activities.

We also seek to recover those funds. Repayment of that type of improper expenditure is required.

Mrs. SNOWE. Do you think, Mr. Jones, allowing prime sponsors to use local funds to replace what was considered disallowed costs is a proper deterrent?

Mr. JONES. Yes, ma'am. There is probably nothing more difficult for a local city council, a mayor, or a county system to have to do than to put taxpayers' money in to replace funds that they have misused in that system.

I suspect that to the extent that we have increased rather vigorously our enforcement of that particular provision it has been one of the more effective things that we have done. I am not sure what other provisions we have to sanction that could be as effective as that.

Mrs. SNOWE. Do you think it is generally known to the public that this is the case?

Mr. JONES. Within the CETA system, the city, the county, and governing structures across the country—yes, ma'am. It is very well known.

Mrs. SNOWE. Can you give us examples of that where it is publicly acknowledged?

Mr. JONES. There was a series of articles in our own publications, as well as in newspapers, of major cases of funds having been paid back throughout the system. There are discussions that I can point out to you at all of the major conferences—of the Conference of Mayors, NACO, and other such organizations—which have focused on that.

Mrs. SNOWE. I have one other question. Yesterday the General Accounting Office said in its testimony that none of the prime sponsors or subgrantees they visisted had sufficiently verified CETA participant eligibility. For example, they listed one subgrantee for which 30 percent of the 114 applications did not contain sufficient information to determine the participant's eligibility for the program.

In some cases they did not have any verifiability. What would you have to say to that?

Mr. JONES. I have two things to say. Please do not misunderstand my comment. It is important to determine a little more substance about those kinds of charges before we go charging in there to determine whether in fact——

Mrs. SNOWE. Did they make it known to your Department?

Mr. JONES. Only in the testimony that you have in front of you. We have yet to see the report of the specifics. When we do we will investigate each situation that comes up.

There are cases where that is a perfectly appropriate finding, where such records are not even required. However, let us assume that those are legitimate cases for the moment. With the Congress we specifically drafted changes in the 1978 amendments to deal with that precise point, because it is the most significant area in which prime sponsors have disallowed costs.

We have a very stringent set of procedures that are in place right now across the country requiring such verification and detailed backup. The report that you are talking about, the GAO report, was done at a time before those procedures were in place. I think that is no longer the case, although it substantiates some of our own findings back at that point in time.

I would hope that such a report today would not find that. If we do, it will be dealt with very severely.

Mrs. SNOWE. Your Department did a study on this issue?

Mr. JONES. Yes, ma'am.

Mrs. SNOWE. When was that study done?

Mr. JONES. I guess we will have to go back and get the date. I think I recall that it was completed in 1977. I would have to get the specific date.

It indicated, as that statement says, that somewhere in the neighborhood of 10 percent of ineligibles existed at that time. The 10 percent was broken down by a series of very technical difficulties versus those where records were not even in existence, or where there were more serious difficulties, and a small number where there was absolute ineligibility and the record was complete but the people were ineligible.

We found that the biggest problem was that, on the face of the records themselves, the prime sponsors at that time were not doing a rigorous investigation. Our corrective actions, which are now formalized in both law and regulation, are very specific on that point.

Mrs. SNOWE. Are you going to enforce them?

Mr. JONES. Yes, ma'am. In fact, that is another major responsibility of the independent monitoring units that were put out there, to determine and follow up on the process that is in place.

Mrs. SNOWE. We sure hope so.

Thank you.

Mr. JONES. So do we. I will go back to one of my earlier comments. I do not suggest that that will solve the problems. We hope that what it will do is to put it into a manageable framework.

I would be happy to share with you those specific requirements. I suspect that we have loaded requirements with regard to checking of eligibility to such a level that, should we decide to go further, we will raise some serious questions as to the costs of doing so.

I do not know how familiar you are with the problems in welfare and other programs. You are getting into very detailed background checks, trying to determine income and relationships and family memberships. Those are the things with which the CETA eligibility is involved. It is a very difficult and expensive process.

Mrs. SNOWE. Thank you.

Mr. MAGUIRE. Mr. Jones, you have under the law the right to suspend grants in whole or in part where prime sponsors do not take appropriate action against subcontractors and subgrantees. Has that ever been done?

Mr. JONES. Where we would suspend——

Mr. MAGUIRE. In whole or in part the contract of a prime sponsor——

Mr. JONES [continuing]. Because of a subcontractor. I do not know. I cannot answer that.

Mr. MAGUIRE. Who can answer?

[No response.]

Mr. JONES. I do not know, sir.

Mr. MAGUIRE. Will you submit that information to the committee, please. Without objection, it will be included in the record.

Mr. JONES. Yes.

[The material follows:]

Under the current CETA system, decisions are made at the local level regarding subcontractors that do not perform in accordance with program regulations or meet expected levels of accomplishment. Individual prime sponsors are responsible for dealing with program management and performance issues concerning their subcontractors and subgrantees. Under this system, prime sponsors over the years have consistently taken action, especially in the program management area, to change subcontractors in cases where they were not able to perform effectively. In addition, the Federal presence forces prime sponsors to bring about resolution of subcontractor problems and issues. As a result of this system, the Department has not had to suspend prime sponsor grants because of failure to take action against subcontractors. However, if a situation should develop where a prime sponsor refuses to take action, the Department will take such action in order to bring about a satisfactory remedy. When one considers the large number of subgrants and subcontracts -- estimated to be over 50,000 -- and compares the CETA system with other human resource programs, we believe it has functioned effectively. In addition, since the issuance in Januaru of this year of instructions regarding the resolution of subgrantee audits, there have been a limited number of cases where sanctions have been applied against prime sponsors as a result of the resolution of subgrantee audits.

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Mr. JONES. The major prime sponsorship we have withdrawn was not just on a subcontract issue. It was on——

Mr. MAGUIRE. I want specifically the answer to that question because we put that into the law. I want to know whether it has been used.

The underlying question here is this. Let me just ask you: Do you think there is a class of professional exploiters of Government contract opportunities that hire themselves out to perform allegedly this, that, or the other service—in effect, parasites who victimize the taxpayer and the unemployed by producing very little indeed for very expensive contracts?

Mr. JONES. I think there are institutions which deal primarily with programs such as this one, but I would not begin to comment on whether or not they were professionally in business to do so at the expense of taxpayers without providing a service. I have not seen evidence of that but I would not say that it does not exist.

Mr. MAGUIRE. There surely is a range, is there not—that is, in quality of performance of these contractors? I sometimes think that people band together to sell something to the Government that they could not sell anywhere else and that all too often, if a prime sponsor falls victim to that, ultimately the U.S. taxpayer falls victim to it. That is my fundamental concern here.

You see something popping up here, something popping up somewhere else. Then you find a pattern. Then you find that the Department of Labor does not really audit on a timely basis. There is no way of catching up.

These are not necessarily clear, precise violations of law. I think if there is a group of exploiters of Government contract opportunities of the sort that I have described, they operate on the edge of the law.

I would like your comment on that. Are you concerned about that?

Mr. JONES. We are very concerned about that. We have seen a growth of subcontractors to the tune of 50,000 or better in the CETA system and that is a cause of major concern. The ability of the Department, or anyone else, to oversee that closely and specifically is obviously a serious and difficult problem.

I would point out, however, three things. I believe we have a relatively decent program for overseeing the performance of our prime sponsor system. To the extent that our prime sponsors are damaged by having subcontractors who are not performing, it very frequently shows up in that process. You will find ample evidence of the prime sponsor system itself ridding its program of large numbers of subcontractors. I will not judge the reasons for that. Sometimes it is for poor performance, as you indicate, or on the borderline. Nevertheless, you will find ample evidence that that has been going on.

Second, you will find ample evidence, as you pointed out earlier, that the relationship between our Federal staff and the regional offices and the local systems frequently result on an informal basis in prime sponsors ridding themselves of subcontractors at various points along the line.

The last step, whether or not we formally have found anything to the extent where we need to investigate and make a determina-

on and then debar them from the system, does involve a formal ocess before the Government can take that action. We have not en a great many of those.

I would expect in discussions with this committee, as well as th the other committees, and in reviewing the state of the art as is developing at this point, that we will be moving more and ore aggressively to begin to set standards for subcontractors and bcontractor management kinds of relationships. That, again, is a fficult administrative burden. It costs money, both to prime spon- rs and to us, but I suspect that this conversation will lead to that nd of suggestion as the number of prime sponsors and the con- rns that we have for them grow.

Mr. MAGUIRE. If you were pressed to give an answer, what would u say the percentage of dollars in the CETA program that are t through fraud and abuse would be? What would you pick as a mber?

Mr. JONES. The position the Department has taken is that if you e the terms fraud and abuse, the figure is very very low. It is mething less than 2 percent.

If you get into the question of management or mismanagement, is difficult to say. Obviously, the figure would be considerably gher. When you use "fraud" and "abuse" you are getting down to absolutely fraudulent misuse of funds, those figures have not en high.

Mr. MAGUIRE. Mr. Statham, could you give us the judgment of e Inspector General with respect to that same question?

Mr. STATHAM. I do not think we have data now, Mr. Maguire, to ve a definitive answer.

Mr. MAGUIRE. Do you think that under 2 percent is the right swer?

Mr. STATHAM. I do not know, sir.

Mr. MAGUIRE. Therefore, you are not sure that it is the right swer.

Mr. STATHAM. I do not know, sir.

Mr. MAGUIRE. You mean that the Inspector General does not, er years of inspector generaling, have a ball park estimate after of the intensive work that is done by him and his division as to w much fraud and abuse we are talking about in the CETA ogram.

Mr. STATHAM. From the statistics that we have, sir, I would say at Mr. Jones is correct. However, again, we are in the process of ilding a statistical base so that we can get a better grasp of our tivities.

Mr. MAGUIRE. Mr. Grisham, do you have any more questions?

Mr. GRISHAM. No, but I think I might go along with what you e saying about fraud and abuse. I think I do tend to agree that aud is probably a very small percentage. But, the abuses and the adequacies of the program might be a very high percentage.

Mr. JONES. I think mismanagement concerns constitute a much gher number. There is absolutely no question about that.

Mr. GRISHAM. Thank you.

Mr. MAGUIRE. Do we have any kind of a guesstimate on that?

Mr. JONES. No, sir.

Mr. MAGUIRE. Are there any other members of the committee who wish to ask additional questions? Mr. Butler?

Mr. BUTLER. Mr. Komarek, you were talking about your resolving your audits. You have about 1,100 unresolved. What is the mix? You are trying to get even with the burden, and of course it is a pretty long haul. What is the mix between current audits and back audits that you are trying to resolve?

Mr. KOMAREK. Mr. Butler, in your committee's report you cited the GAO survey in 1979 which projected that the ETA backlog was about 25 months old. This was, if you will, the average age of audits in the backlog.

Based on the 25-percent reduction in that backlog that has occurred over the past 18 months, we are now projecting that we are probably down under 20 months, closer to 19 months, as an average age of audits in the backlog.

Now, I must say that there is quite a mix. The 19-month figure is probably somewhat misleading. There is a requirement in each of the Regional Administrator's senior executive service performance standards that they make every effort to resolve audits within 120 days. Many of the audits which are currently before ETA are being resolved within 120 days. However, one of our continuing problems is that we have many audits that go back 4, 5, or 6 years. Some of them even predate CETA. In those cases the legal issues get very involved in terms of trying to contact grantees.

We have as an objective to resolve all of those older audits. Of the really old ones, there are 223 left out of our 1,100 some odd inventory. We plan on having all of those older audits resolved in this fiscal year.

Mr. BUTLER. I guess my question is: When an audit hits your desk what are the odds on your resolving it within 120 days?

Mr. KOMAREK. At this time, for current audits—that is, ones that are hitting our desks today—from the figures which I have seen—and this is not a scientific sample—we seem to be doing at least 50 percent of them within 120 days. Audits become more difficult to resolve the older they get because people start to forget about them.

Mr. BUTLER. I can see that. What I was saying to you is that I think it is more important to get to the current ones and to keep current. Do you have some sort of a priority or do you just walk in and pick up one that looks interesting? How does it work? That is what I am trying to figure out.

Mr. KOMAREK. As I said, each contract manager with the ETA in their performance standards say that they will resolve somewhere between 80 and 100 percent of these audits within 120 days. Since this is the thing that will determine their bonuses and my bonus, I am very interested in achieving that objective.

Mr. BUTLER. Is your bonus tied to how much money you recover?

Mr. KOMAREK. It is not tied to how much money I recover. My bonus will be determined this year, in part, by how much ETA overall reduced its backlog, and I intend to get my bonus.

Mr. BUTLER. This is a sanction of a sort, although a negative sort of sanction, but if it inspires you to such great effort maybe it will be effective.

Mr. STEPNICK. I am going to try to give him so many reports that he has difficulty earning his bonus.

Mr. KOMAREK. This is another problem, sir. [Laughter.]

If Mr. Stepnick continues to increase the number of audits, which I think are needed, this obviously increases the workload for ETA in resolving those audits.

Mr. BUTLER. That is why you are there.

Mr. KOMAREK. Sure.

Mr. BUTLER. I yield back, Mr. Chairman. I could go on for some little time but I yield.

Mr. MAGUIRE. I thank you for your very penetrating questions.

I think that the committee is going to want to hear from Assistant Secretary Green on some of the matters that have been discussed today. There are perhaps some answers that only he can provide. Until that point, I guess we should conclude this section of our investigation.

The subcommittee stands adjourned.

[Whereupon, at 12:18 p.m., the subcommittee adjourned, to reconvene subject to the call of the Chair.]

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CETA'S VULNERABILITY TO FRAUD AND ABUSE

WEDNESDAY, JULY 23, 1980

HOUSE OF REPRESENTATIVES,
MANPOWER AND HOUSING SUBCOMMITTEE
OF THE COMMITTEE ON GOVERNMENT OPERATIONS,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m., in room 2203, Rayburn House Office Building, Hon. Cardiss Collins (chairwoman of the subcommittee) presiding.

Present: Representatives Cardiss Collins, John Conyers, Andrew Maguire, M. Caldwell Butler, and Olympia J. Snowe.

Also present: Joseph C. Luman, staff director; Richard Grawey, counsel; Sharon Smith, clerk; and Stephen Blackistone, minority professional staff, Committee on Government Operations.

Mrs. COLLINS. This hearing of the Manpower and Housing Subcommittee of the Government Operations Committee will come to order at this time.

Today's hearing is the third in a series addressing what can be done to correct the weaknesses in the Comprehensive Employment and Training Act programs.

Initially, we heard from the General Accounting Office, whose representatives pointed out that fraud and abuse had occurred in the CETA programs because of lack of adequate internal controls, audit weaknesses and, in GAO's judgment, lack of clear signals from the top of the program that the Department was determined to enforce abuse-preventing regulations.

GAO also reported to us on weaknesses in the subgrantee audit system in CETA, which is particularly important because most of the money in the CETA program is expended by subgrantees, who receive it from prime sponsors.

Following the GAO testimony, we discussed these problems with officials from the Department of Labor. Although this discussion was useful, we did not have the opportunity to cover some of the issues of concern to the subcommittee or to discuss them with the administrator of the CETA program, Assistant Secretary Green.

Accordingly, we have scheduled this hearing to give us an opportunity to explore some of these issues further.

Administering the CETA program, the committee noted in its report issued last November, is an extremely complex and difficult task. A balance must be struck between accountability for Federal funds and letting people at the local level determine which mix of training and jobs best fits their situation.

We said in our report that the balance went too far in favor of making sure that the money got out, but with insufficient concern

for its effective use. The Department's response generally agreed with this.

Our interest today is whether the actions set out in the Department's constructive response will result in more effective spending of the limited Federal dollars targeted to help people find jobs.

Additionally, our concerns about the operation of the program have been sharpened by General Accounting Office revelations that it is susceptible to being abused or defrauded because of weaknesses in controls. This is not to say that all CETA prime sponsors or subgrantees are misusing the program, but that the opportunity exists.

Given the scope of this multibillion-dollar effort, it is realistic to expect that abuses are going to occur until DOL tightens up the slack areas. GAO furnished a number of examples of misuse, some of which had been detected by the Department and others by the GAO work team.

We believe two things are critical to insuring that these dollars are spent wisely. First, there must be efficient management, planning and technical assistance so that funds are not wasted because of lack of knowledge, inexperience or the pursuit of impractical schemes.

Second, there must be an effective system of monitoring, audits and other controls to assure that misspending is detected. This must be accompanied by DOL's willingness to act vigorously against the waste of CETA funds.

Mr. Green, we are pleased to have you with us this morning. I understand that your statement addresses the questions that the subcommittee raised in its letter of invitation. You may proceed as you see fit.

STATEMENT OF ERNEST G. GREEN, ASSISTANT SECRETARY FOR EMPLOYMENT AND TRAINING, U.S. DEPARTMENT OF LABOR; ACCOMPANIED BY CARIN A. CLAUSS, SOLICITOR; AND RONALD GOLDSTOCK, ACTING INSPECTOR GENERAL

Mr. GREEN. Thank you very much, Madam Chairwoman.

Before proceeding with my statement I would like to introduce those at the table with me. Carin Clauss is the Solicitor for the Department of Labor and Ronald Goldstock is Acting Inspector General.

I appreciate this opportunity to appear before you to discuss the subcommittee's concerns about the administration of the Comprehensive Employment and Training Act.

I would like to begin by making a general statement about the CETA program, in order to place today's discussion in perspective. As you know, CETA is the principal vehicle for providing employment and training assistance to low-income, unemployed Americans, many of whom would not be able to obtain employment without this form of assistance. The program is a large one—in fiscal year 1979, over 4 million persons participated in CETA throughout the United States. The vast majority of these participants were unemployed at the time of entry into CETA, and nearly 90 percent of those enrolled in the decentralized local programs in fiscal year 1979 were economically disadvantaged. Black and other minorities account for almost one-half of the enrollment in CETA.

early 1.3 million black persons were served in fiscal year 1979, as ere over half a million Hispanics. Over 180,000 of the persons rved were handicapped.

For some groups, CETA provides a major source of jobs. For ample, about 22 percent of all black teenagers employed in Octo- r 1978 were working in CETA programs, and employment in the ork components of CETA youth programs in December 1979 ac- unted for one-fourth of the measured employment growth of all enagers since December 1977, and virtually all of the growth for ack teenagers—the only gains for black teenage males in the 70s.

Participation in CETA has helped former participants both in rms of obtaining jobs and further training, and in increasing eir earnings. For example, of those persons terminating from tles II and VI programs in fiscal year 1979, almost two-thirds had sitive outcomes, either obtaining employment, 39 percent or by ceiving additional training or schooling, 27 percent.

While CETA has been successful in providing jobs and training millions, at the same time it has undeniably had its problems. argely, these are attributable to the difficult economic circum- ances it has had to operate under and the rapid growth in size nd complexity of the program. When enacted in 1973, CETA was nall and simple compared with the program today. Since that me CETA has been frequently amended, giving the system new issions and increasing its size. For example, with the addition of large countercyclical program in 1974, CETA was asked to re- ond to a major recession before the system had really had a nance to get fully underway. In 1977, the CETA system was ilized to carry out a major part of the economic stimulus pro- am, which included more than doubling the size of the public rvice employment programs. A major new youth initiative was so added in 1977. Most recently, in 1978, a major revamping of ETA took place, with new provisions to: One, more sharply target rvices on those most in need of assistance; two, strengthen con- ections with the private sector; three, improve program manage- ent and accountability; and four, control fraud and abuse.

While these major changes were taking place in the CETA legis- tion, the program was growing in terms of program funding, the mber of persons served by the programs, and its administrative mplexity. In fiscal year 1975, the first full year of operation of ETA, $3.1 billion was spent on CETA programs. By fiscal year 79, this figure had increased more than threefold. Corresponding- , the number of enrollments grew dramatically. Two indications the increasing complexity of the program are seen in the mber of CETA programs prime sponsors must administer, and e tremendous growth in the number of subcontractors, to where e now estimate there are over 50,000.

We believe that prime sponsors have responded quite well to ese changes and that overall CETA can be considered a success. e do not agree with characterizations of the program as being fe with fraud, abuse and mismanagement, although there are in- ance where each of these has occurred. In the vast majority of risdictions, CETA programs have been run honestly and efficient- . We believe that over time these programs have become more

effective in carrying out their objectives—particularly since the CETA reauthorization of 1978. In part, this is due to amendments proposed by members of this subcommittee, which have strengthened the management of the CETA program. Our considerable efforts to improve program management and accountability in CETA by upgrading both the administrative capabilities of prime sponsors and our own monitoring and oversight functions have been detailed to the committee, both in our response to the committee's report on the Department of Labor's administration of the CETA program and at previous hearings.

Most of the provisions of the reauthorization have now been implemented and first assessments of their effects are becoming available.

Several months ago, an assessment of the new CETA was issued by the National Academy of Sciences. While the NAS report was critical of some aspects of the new CETA program, it found, and I quote:

> Early indications . . . that the overriding objective of CETA—to serve more fully those whose needs are greatest—is being achieved. Additionally, wages are lower; the tenure of PSE participants is being shortened; more emphasis is being placed on the transition of enrollees into regular jobs; and prime sponsors are administering programs with a greater concern for accountability. There is also some basis for believing that the incentives for substituting Federal funds for local revenues are weaker.

Now I would like to turn to the specific issues raised in your letter of invitation. First, you ask for an assessment of the Department's power to hold prime sponsors accountable for their expenditure of CETA funds and an assessment of its exercise of these powers.

As you know, CETA provides in section 106(d)(1) that if the Department concludes that any recipient of funds under the act is failing to comply with any provisions of the act or the regulations under the act, or that the recipient has not taken appropriate action against its subcontractors, subgrantees, and other recipients, the Department has authority to terminate or suspend financial assistance in whole or in part and to order such sanctions or corrective actions as are appropriate. These include the repayment of misspent funds from sources other than funds under the act and, if necessary, the withholding of future funding. The act further provides that the Department has authority to take whatever action is necessary to enforce any orders issued, including action directly against subgrantees or subcontractors, and to order the primary recipient to take legal action to reclaim misspent funds or to otherwise protect the integrity of CETA funds and insure the proper operation of CETA programs.

The Department believes that this language, as well as other provisions contained in the act, provides an adequate basis for holding prime sponsors accountable for their expenditure of CETA funds. We also believe that we have exercised this authority in a proper and effective manner, through: Establishing a monitoring and assessment system designed to assure that program operations are carried out as required by the act; requiring corrective actions where problems have been identified; disallowing expenditures which are not in accordance with the act, regulations or approved plan; requiring the repayment of disallowed costs either in cash or

through the provision of appropriate services; and terminating or refusing to grant prime sponsorships where a local jurisdiction does not or cannot effectively operate CETA programs.

In addition, for the past 2 years, the Department has also carried out a very aggressive reallocation policy. This policy is designed to assure that prime sponsors effectively utilize available funds in accordance with their approved plans. It includes the reallocation of underutilized funds during the fiscal year and the reallocation of excess funds carried forward from one year to the next at the end of each fiscal year, which amounted to over half a billion dollars in fiscal year 1980.

Also, the Department will shortly implement new procedures calling for required actions and sanctions where prime sponsors continually receive poor ratings during the annual assessment process. Such sanctions could include the loss of prime sponsor designation.

We believe that these actions constitute an appropriate exercise of the Department's authority to assure effective program operations. While the number of instances of application of specific sanctions may not be large in relation to the size of the program, the importance of having specific procedures cannot be underestimated. Simply having the procedures in place removes any doubts about the process and thus serves to discourage prime sponsors from not taking action against their subgrantees. Moreover, the specific instances where the Department has invoked sanctions against prime sponsors serve as deterrents since they demonstrate the Department's willingness to take action. Finally, I would like to point out that the Department frequently reviews its procedures for holding prime sponsors accountable, with a view to improving those procedures whenever possible. Madam Chairwoman, this ends my oral report. The rest of the statement I submit for the record.

Mrs. COLLINS. Your statement will be inserted in the hearing.

Mr. GREEN. My colleagues and I would be pleased to answer any questions you or other members may have.

Mrs. COLLINS. Thank you.

The subcommittee has been concerned with the Department's willingness to impose sanctions and follow upon them in cases where this is justified. Responding to questions after the last hearing, the Department said sanctions had in a few cases been applied to prime sponsors for failing to resolve subgrantee audits.

Asked for these, DOL stated the three in the region 1 were Bridgeport and Hartford, Conn., and the balance of the State of Vermont. In Bridgeport, $503,000 was disallowed because of Bridgeport's failure to take any action to resolve audits which were questioned in fiscal years 1975 and 1976. This was 4 fiscal years ago. Since the Department cites this case, can we presume that you believe it to be an effective deterrent?

Mr. GREEN. An effective deterrent?

Mrs. COLLINS. Yes.

Mr. GREEN. With audits, as you know, one must identify problems and second, go through a process of resolution.

Mrs. COLLINS. Does it take 4 fiscal years to do that? This case has been kicking around for 4 years.

Mr. GREEN. It could have through appeals.

Mrs. COLLINS. What is the status of the case now?

Mr. GREEN. I can supply it for the record.

Mrs. COLLINS. How about Ms. Clauss; she is the Solicitor. She doesn't know either. Provide that for the record.

[The information follows:]

CURRENT STATUS OF FISCAL YEAR 1975-76 AUDIT

An informal resolution meeting was held by the region with the Bridgeport prime sponsor on July 24, 1980, as required by DOL's audit resolution procedures. At that meeting, the prime sponsor indicated that it has found additional source documentation to support some of the costs questioned in these audits. In addition, 17 recently completed subgrantee/subcontractor audits also have to be reviewed to determine whether the findings are compatible with the original Bridgeport audits with respect to the costs in question. As soon as the region completes its review of these materials (including an onsite examination of the new source documentation), a final F. & D. will be prepared and issued concerning the disposition of the $503,000 in questioned fiscal year 1975-76 subgrantee costs.

Mrs. COLLINS. When can we expect to have that?

Mr. GREEN. I would have to say I would supply it as quickly as I could.

Mrs. COLLINS. We need a better answer than that. We would like to have it in the next 6 weeks or 4 weeks.

Mr. GREEN. You will have the information in 4 weeks, Madam Chairwoman.

Mrs. COLLINS. Thank you very much. Mr. Butler.

Mr. BUTLER. We had some discussion the last time, Mr. Green, when you were not here. I would like to follow up on my discussion of the D.C. CETA program. We had evidence of Wider Opportunities for Women as a showcase program. On the other hand, CETA funds were used to pay city council staff and the 1979 summer youth program was found by the Department monitors to be the worse of any of the programs they evaluated. Only nineteen audits of subcontractors had been done and the prime sponsor has repeatedly refused to cooperate in conducting a unified audit. One of the few complete audits which we mentioned last time I believe was the D.C. Institute for Careers in Tourism. They found major abuses resulting in thousands of dollars in waste. Other subcontractors such as the D.C. Chamber of Commerce and Youth Pride have also been involved in questionable activities. Finally, this last month it was revealed almost $2,400 in CETA funds was spent to rent rooms in the Harambee House. To me this is the kind of prime sponsor about which the Department ought to have concern.

Following up about some specific aspects of the D.C. CETA program, I believe it was Mr. Stepnick who said that no audit of the D.C. prime sponsor had been done because of the lack of cooperation from the District. He gave us a long history of Department of Labor attempts to initiate a unified audit and repeatedly unkept promises of cooperation from the District.

My first question is why has the Department waited so long to begin its audit of the District?

Mr. GREEN. On June 25, Congressman, the District issued a request for proposal for the audits of the subgrantees and that process is now in place. Those audits will go on.

Mr. BUTLER. June 25, 1980?

Mr. GREEN. Yes. The District put out its request for proposal or RFP to begin the audits of the subgrantees. That will proceed now in an orderly fashion and those comprehensive audits will occur.

Mr. BUTLER. Do you think that procedure would have taken place had we not had these hearings here?

Mr. GREEN. Yes, sir; I think it would have occurred without the hearings going on. In fact, we are very interested in seeing that all of the activities—not only in the District but in the other 470 prime sponsors—move as expeditiously as possible.

Mr. BUTLER. Do you agree the characterization that the District of Columbia has refused to cooperate in auditing subcontractor is correct?

Mr. GREEN. No, sir; I don't. I think this is a case where they will proceed as other prime sponsors have, and have adequate audits of their subgrantees.

Mr. BUTLER. Prior to June 25, 1980, do you think the District of Columbia discharged its obligation to audit subcontractors?

Mr. GREEN. Before that the RFP had not been released but as of the 25th that occurred. We expect it to move along and the results to come in, and for us to be able to review them.

Mr. BUTLER. So you think prior to June 25, 1980, the District of Columbia had cooperated in auditing subcontractors?

Mr. GREEN. Prior to that time, Congressman, the RFP had not been released.

Mr. BUTLER. What is RFP?

Mr. GREEN. It is the request for proposal. It is a process in which they let contractors bid as required under our statutes. After that the auditing of the subgrantees and contractors can occur.

Mr. BUTLER. Excuse me, is it your statement that there was no obligation——

Mr. GREEN. I am missing the question.

Mr. BUTLER. That is because I haven't completed it. Is it your statement that prior to the RFP the District of Columbia had no obligation as prime sponsor to audit its subcontractors?

Mr. GREEN. Certainly, they do.

Mr. BUTLER. They had no obligation?

Mr. GREEN. They had an obligation to audit the subcontractors as every other prime sponsor has.

Mr. BUTLER. Have they done it?

Mr. GREEN. They have done it now.

Mr. BUTLER. Had they done it prior to June 25?

Mr. GREEN. No, they had not.

Mr. BUTLER. Why did it take you so long to get around to saying it?

Mr. GREEN. The question is have they done it. They have done it now. They have started the process.

Mr. BUTLER. My question is why did it take you or the District, so long to get around to it?

Mr. GREEN. I don't think it was an undue period of time. We simply got the RFP out on the 25th—they did, rather—and they will proceed with auditing of the subcontractor. The item has been accomplished.

Mr. BUTLER. The item had been accomplished?

Mr. GREEN. Yes, sir.

Mr. BUTLER. We have audits of subcontractors——

Mr. GREEN. It requires a competitive bidding process to select who is going to perform the audits. Once that is determined then the audits will occur.

Mr. BUTLER. How many audits have come to your attention prior to that time?

Mr. GREEN. Audits in the District?

Mr. BUTLER. Yes, subcontractor audits.

Mr. GREEN. I know of the Pride audit—that has come to my attention. The Department was involved with that. That one for certain I know a little about.

Mr. BUTLER. I am still having difficulty understanding why prior to June 25, 1980, the District had not gotten around to its RFP. This is a 6-year period.

Mr. GREEN. In the 6 years—I can't be responsible for the 6 years but I will take the responsibility since 1977.

Mr. BLACKISTONE. I think the question is why it has taken so long to issue the RFP. In the prior hearing Mr. Stepnick said there had been a series of negotiations with the District of Columbia in an effort to set up a unified audit. The District had promised repeatedly to put an RFP out so that it could audit subcontractors at the same time the Department was auditing the prime sponsor. Mr. Stepnick said this had been going on for several years. The question is why did the Department allow this to go on for so long.

Mr. GREEN. There were staff discussions. My view was it had gone on long enough and they issued the RFP. It is a closed issue now. The request for the proposal is on the street, the contractor will be selected through a competitive bid process and the comprehensive audits will occur of the subcontractors.

Mr. BUTLER. I guess your response is that you are not embarrassed by the failure of anything to take place in the last 6 years in this regard.

Mr. GREEN. As I said, sir, the last 6 years I wasn't here so I am not responsible for it.

Mr. BUTLER. Your response is that you are not embarrassed by the failure of anything to take place in the last 3 years.

Mr. GREEN. I guess, I don't perceive this as a failure, Congressman. In this case the discussions went on between the Department and the District and have now come to culmination and we have an audit process that will occur.

Mr. BUTLER. Madam Chairwoman, I guess we have a vote on.

Mrs. COLLINS. The committee will recess for 15 minutes.

[Brief recess.]

Mrs. COLLINS. The subcommittee hearing will reconvene at this time.

Mr. Butler, I believe you had the time.

Mr. BUTLER. Thank you, Madam Chairwoman. I just want to return for a moment to my previous line of questioning with the witness. I realize my time is about to expire.

I have the transcript of our hearing of May 21, 1980. I am referring to Mr. Stepnick's testimony. My question, sir, to you, dealt with this line of questioning with him. I am quoting now from page 75:

I have in my hand here a letter dated October 10, 1978, from the Acting Chief, Audit Division, to Mr. Wilkins of the Department of Manpower and Employment, and so forth.

On page two it says: "We did not audit the District of Columbia CETA program due to the lack of audit coverage of the subgrantees." This is not a new problem, this lack of cooperation of inability to audit or a failure to audit the subgrantees.

Mr. STEPNICK. The record shows that there have been discussions on it continuously for the last 4 to 5 years.

Mr. BUTLER. This showing in the record of continuous discussion, does that reflect favorably or unfavorably on the Department of Labor?

Mr. STEPNICK. I would say that it reflects unfavorably on the Department of Labor——

Mr. BUTLER. Indeed, it does.

Mr. STEPNICK [continuing]. To the extent that there has not been a resolution of the question before this point in time.

My question to you is do you agree or disagree with Mr. Stepnick's response?

Mr. GREEN. We agree it had gone on long enough.

Mr. BUTLER. No. My question is does it reflect favorably or unfavorably on the Department?

Mr. GREEN. I think it reflects favorably by coming to a conclusion to end the discussion and to move on with the audit.

Mr. BUTLER. Now that you have finally gotten around to it, it purges the record of any failure to do anything for the last 4 or 5 years.

Mr. GREEN. Congressman, the discussions on the unified audit—I don't have the record from the previous hearing——

Mr. BUTLER. You had access, did you not?

Sir, you asked us to continue this hearing for a whole month and I assume one of the things you were doing was reading this transcript. Maybe I was mistaken about that.

Mr. GREEN. The Department believes that the discussions had gone on long enough and it was time to come to closure on it. The issuance of the letter from us and the District brought that to a head. Now the unified audit can proceed.

Mr. BUTLER. Are you going to impose any sanctions against the District for its repeated refusal to cooperate in auditing subcontractors prior to this point?

Mr. GREEN. The District has now following the exchange of letters between us, begun the auditing of the subcontractor. We believe as the committee did, that it had gone on long enough. Now the act is occurring.

Mr. BUTLER. All I can say is I am really disappointed that after 4 or 5 years the Department is prepared to accept a letter of intent——

Mr. GREEN. Congressman, the letter we sent to the District said if the audits didn't begin we would remove administrative funds from the grant equal to the amount of the audit.

Mrs. COLLINS. The time of the gentleman has expired.

Mr. BUTLER. Thank you, Madam Chairwoman.

Mrs. COLLINS. Mrs. Snowe.

Mrs. SNOWE. Thank you, Madam Chairwoman.

Mr. Green, you mention in your statement that fraud and abuse is not characteristic of the CETA program, but that you would agree there are problems with the program.

Mr. GREEN. Certainly.

Mrs. SNOWE. Have you examined the GAO testimony?

Mr. GREEN. Yes.

Mrs. SNOWE. I notice in your statement that you give a general overview of the program but I think the committee is also interested in specific instances where you have imposed sanctions. You did mention on page 9 of your testimony: "Moreover, the specific instances where the Department has invoked sanctions against prime sponsors serve as deterrents."

Can you cite any to this committee?

Mr. GREEN. Certainly. One deterrent that I would cite would be the removal of the prime sponsorship.

Mrs. SNOWE. Have you done that?

Mr. GREEN. Yes; in St. Louis we took the prime sponsorship away.

Mrs. SNOWE. Is that the only one?

Mr. GREEN. That is the one case now. Another deterrent would be moving as we did on the District to indicate we would disallow funds if the audit didn't proceed. I am sure I could supply others for you.

Mrs. SNOWE. This committee would be interested in precise information, statistical information, as to how that is proceeding. I think we get the feeling, or at least I do, during the testimony before this committee, that has preceded you that, yes, the rules and regulations are there but they are not being enforced or imposed. Certainly that is a concern of this subcommittee.

Have all the prime sponsors been audited?

Mr. GREEN. Not all.

Mrs. SNOWE. Why not? They are supposed to be audited every 2 years.

Mr. GREEN. Yes.

Mrs. SNOWE. Why haven't the audits been completed?

Mr. GREEN. Of the prime sponsors I think we now have audited approximately three-quarters of all. We expect by the end of this fiscal year to have completed audits of all prime sponsors.

Mrs. SNOWE. How many are remaining?

Mr. GREEN. It would be roughly a hundred more left. Out of 470, three-quarters have been audited. There are about 120 yet to be audited.

Mrs. SNOWE. I understood from the Department's prior testimony that there were only about 14 remaining, but you have 100 left to be audited. What is the problem within the Department that you are unable to audit all prime sponsors?

Mr. GREEN. We expect to complete audits on all the prime sponsors by the end of this fiscal year. We expect that to occur before the end of this fiscal year.

Mrs. SNOWE. What about disallowed costs? I know that is one of the sanctions you can impose against prime sponsors. How often have you imposed that sanction?

Mr. GREEN. In fiscal year 1975 through 1978, 147 audits were resolved, $38.6 million——

Mrs. SNOWE. Can you give that figure again?

Mr. GREEN. 147 audits were resolved between 1975 and 1978. $38.8 million was resolved; $25.9 million of that was allowed; $12.9 was disallowed.

In 1979 there were 164 audits resolved—$24.6 million resolved, $17.9 million allowed, $6.7 million disallowed.

Mrs. SNOWE. What did you do in the instance of the $6.7 million disallowed?

Mr. GREEN. We have at this time collected $1.3 million of that. The rest is under appeal or in debt collection. The Department is still actively pursuing collection of all amounts due.

Mrs. SNOWE. In 1978, Congress passed amendments that gave the Department the power to withhold funds from the prime sponsor. Have you done that in instances of disallowance?

Mr. GREEN. Yes.

Mrs. SNOWE. In how many instances was that the case?

Mr. GREEN. I can think of three or four instances. The city of Chicago, and Philadelphia, where we disallowed and had funds returned for violations.

Mrs. SNOWE. In my State of Maine there is a county, Kennebec, which is one of the prime sponsors. It is dropping the CETA program and will become part of the balance of State sponsor because of the administrative headaches.

Obviously, you are imposing more rules and regulations to insure honesty and compliance with the program. On the other hand, it is obviously causing headaches for those prime sponsors doing their job.

Is there anything you can suggest to relieve the headaches of those who are doing their jobs?

Mr. GREEN. I think the Department, along with the Congress, has tried to minimize the set of rules they have to operate under but certainly information that is needed, accurate data on the participants, information involving the managing of subgrantees, all requires a great deal of staff time.

I think those prime sponsors have run programs well. They are able to operate them with minimal problems but it certainly is a dilemma in all of our social service programs to have them well managed, to supply adequate information and to do it without a burden of paper and administrative oversight.

Mrs. SNOWE. The GAO testimony suggested that at one of the subgrantees they visited in fact there wasn't any verification of the eligible recipients. In one case they cited 30 percent of 114 applications reviewed at one subgrantee did not contain or didn't have sufficient information on the application to determine if they were eligible.

What are you doing in situations of this kind? What are your verification rules?

Mr. GREEN. Since the amendments in 1978, the eligibility determination has become a lot tighter. First, the specifications for income as well as employment are a lot tighter than existed prior to that.

Second, we are conducting special reviews on eligibility. In a number of cases we support the audit findings where there is not adequate data to support eligibility.

Another example is the summer youth program that handles roughly about 900,000 participants each year. In the past there had been little attention paid to the documentation of income of the

young people's parents—which is part of the eligibility requirement.

We require now in all the sites they have to bring adequate documentation of parents' income so that there is ample proof there.

I think this represents, for the size of that program, a substantial change in the way business has been done.

Mrs. SNOWE. So you are satisfied with the verification procedures?

Mr. GREEN. I am never completely satisfied. I can never be sure but with the process we have of requiring documentation, special review on the part of the inspector general as well as our bearing down continually, I think we are very confident.

But for all 50,000 subgrantees at this moment, with 2 million participants, to say there is not one ineligible, Congresswoman, no, I can't assure you of that.

Mrs. COLLINS. The time of the gentlewoman has expired.

Mr. Conyers.

Mr. CONYERS. Thank you, Madam Chairwoman.

I join in welcoming the Assistant Secretary here today. We recognize that your responsibility is really overwhelming. Everybody is talking about jobs and job creation. I am hopeful that, as you indicated, the audit procedures are being implemented even more carefully and with greater scrutiny. I am impressed by the progress already achieved in auditing CETA contracts. This is an area that we have to look at carefully.

The major role that CETA performs for job training and employment of young workers and especially black teenagers is a very large one. Has that been reviewed here this morning in your testimony?

Mr. GREEN. Yes, Congressman, I mentioned in my opening statement that roughly three-quarters of minority black youth employment occurred through the CETA program.

Mr. CONYERS. It seems to me that with this continuing scrutiny that we are going to be able to improve the audit procedure. What do you see as a way to get to the continuing high rate of unemployment? Are we going to need more CETA programs? Are there new variations being added to the main theme? What are the kinds of improvements that have occurred?

Mr. GREEN. I think the major improvement, Congressman, is the attempt to connect the training activity to the private sector in economic development activities.

In the past, the CETA program and the old program have not had much of a connection to the business community. We have now, through the amendments of 1978, organized private industry councils. This requires every local prime sponsor to set up an organization of some 15- to 20-odd business people with labor representation and community-based groups to look at the plans, to try to identify where the labor market projections are going, and what the needs are.

The other item that I think is important in terms of this private sector initiative program is its connection to economic development. We have a number of localities now that have been able to use CETA as a means of attracting industry. In Pennsylvania, the

lance of State used CETA to assist in preparing workers for the lkswagen plant that was located there.

In Portland, Oreg., in attracting a chemical firm from Germany, ey were able to organize training of participants early enough so ce the firm went onstream it had trained and competent people.

The other thing that I think is important, is that we are able w to have the Department of Commerce Economic Development dministration, HUD, through the UDAG program, and the Dertment of Transportation through their urban mass transit proam, require grantees who receive the money to utilize CETA rticipants.

We have a built-in percentage. This represents a different approach in our attempt to link together job creation and the job pply program.

Mr. CONYERS. You are finishing about 4 years in the job this ear, I believe. What do you see as the long-range problem? Because even so we still have incredible unemployment. Half of the lack youths are out of work. So there ought to be perhaps some ewer approaches that you might want to suggest to the legislaure.

Assuming we had a perfect CETA program, even audited, every ast quarter accounted for, what the heck difference would it make f you got half the kids out of work anyway? In a way we have a nicroscope here pouring over in fine detail a problem that may in ny view miss the point.

I would like to know how we create more opportunity. It may not e in CETA. There is nothing that is built in stone that says CETA is the only way. I was wondering if you, out of this experience you have gained some thoughts on that.

Mr. GREEN. I think the need is for the passage of the youth bill that is now out of the full committee.

Mr. CONYERS. That combines education.

Mr. GREEN. And labor.

Mr. CONYERS. And training.

Mr. GREEN. I think when you look at the problems of the eighties, particularly involving minority youth, the education issue looms very big. We are moving in a transition in society where fewer and fewer semiskilled jobs are around. The kinds of things we were able to get young people into 20 years ago have diminished.

The problem we face with a number of the young people that we attempt to impact in CETA is that they come in with limited educational experience, either the basic——

Mr. CONYERS. Do you have any other ideas? I have a little problem with that, to be honest. With most of the kids that drop out of school, it is their last thought of going back to school even if a job is conditioned to it. That is a little bit unreal. I don't want to get into that particular problem.

Mr. GREEN. I think education has to occur outside the normal classroom. They left that because they were dissatisfied with it.

Mr. CONYERS. Exactly.

Mr. GREEN. What we have done on experimental basis but far too small is to use alternative schools with worksites as a means of

conducting the educational side. It has occurred. We are able to show improvement in reading levels.

Mr. CONYERS. Are you getting any other ideas on this?

Mr. GREEN. I think for a number of young people part-time employment is terribly important.

Mr. CONYERS. What about implementation of the Full Employment and Balanced Growth Act?

Mr. GREEN. I think that would be good.

Mr. CONYERS. Which would have mandated a detailed articulation at the beginning of every year of what it is we are going to do to reduce the unemployment and parenthetically the inflation by 1 to 1½ points every year. That has been in suspension.

It seems to me that I would encourage your part of the Department of Labor to join with those of us who are looking for even newer and bolder initiatives.

I concede to you that the youth employment program is one. But it seems to me that we need to take even more daring steps in examining a problem that even as we improve the mechanics the problem does not go away. I think it hangs over all our heads.

I yield back any time I may have.

Mrs. COLLINS. Thank you. The time of the gentleman has expired.

Mr. Green, in your statement you mentioned that as recently as 1978 there was a major revamping of CETA with new provisions that would do a number of things on page 3. One is to target services and two is in connection with the private sector, improved program management and accountability and control for fraud and abuse.

How effective have these new programs been?

Mr. GREEN. I think on the targeting, we have moved far. Prior to 1977, less than 50 percent of the PSE participants were economically disadvantaged. As of right now in all CETA programs over 90 percent are, and we expect by the end of this fiscal year roughly 98 percent of the participants will be economically disadvantaged.

Second, I think on the issue of private sector activity, the utilization of title VII, which was one of the new amendments to CETA, will have a high dividend payoff. It is identifying jobs that we have not previously been able to impact on. It has allowed us to impact and penetrate employers, particularly small- and medium-sized employers that are a large part of many urban markets; and third, it allows us to make the connection on the economic development activities.

On improving our management and accountability, I think one of the items that we have moved on is the audit resolution process by reducing our audit backlog. In 1979, we began with 1,420 audits that had not been resolved. We have reduced that by 18 percent. We began with 1,170 this year. We are down now to 963. We expect 878 at the end of the year. It is better than a 25-percent reduction.

GAO said it took us 25 months to resolve audits. We now have gotten that down to 16 months and we expect to be able to move it down even further.

I would use some of these as examples of how we have been able to impact greatly on the management of the program.

Mrs. COLLINS. The fourth area that you didn't touch on was control of fraud besides the auditing. What specifically are you doing to control fraud?

Mr. GREEN. We are working closely among ourselves as well as with the Inspector General's Office. Where fraud has occurred we will proceed on it. In the case of the Lorton CETA program in the District, we issued a final determination on disallowed costs. It was not necessarily a case of fraud. $28,000 was to be paid back by the prime sponsor but they asked for a hearing. After administrative law judge has a hearing we expect payment back.

In criminal fraud cases, we have moved with effectiveness and have had police action taken where that has occurred. We will continue to do so.

Mrs. COLLINS. Let me ask about some of these costs in particular. Did you receive a copy of the GAO testimony in your office? There were a number of items in attachment 1 to their testimony. Two or three of those I would like to have specific answers for, if I may. On the page entitled "Other Abuses and Errors," there are cash collections that were not deposited in one local labor regional office; and it specifically mentions checks that were held out for 5 days.

Is there sufficient auditing and internal control to keep these kinds of occurrences from being a real part of the CETA problem?

Mr. GREEN. On the cash issue of cash collections I think that we have put in adequate controls. I would like to supply for the record information on each of these cited——

Mrs. COLLINS. Do that.

[The information follows:]

Update of GAO Testimony of May 20, 1980, Before Manpower and Housing Subcommittee

The following are the Department of Labor's responses to issues the General Accounting Offices raised in testimony before the Committee. These issues refer to problems in the CETA system at the region, prime sponsor or subgrantee level.

Item

A 16mm movie projector valued at $383 was missing from one regional office's inventory. No record of a property transfer existed and the projector is presumed lost or stolen.

Response

ETA's Regional Office in Seattles has no knowledge of a missing projector, however, it believes GAO's referring to an overhead projector found missing in an audit of one of its technical assistance contractors OSORO Associates. Proper reports have been filed and the region has certified the loss was not due to negligence.

Item

Cash collecitons were not deposited promptly at one Labor Regional Office. For example, it took 5 days to deposit a $135,863 check and 6 days for a $68,560 check although Labor procedures call for daily deposits of receipts totaling $1,000 or more.

Response

Corrective Action has been taken by the regional office to institute a system to ensure daily deposits of receipts totaling $1,000 or more.

Item

A relative of one subgrantee Director who was ineligible for the CETA program, was placed in the program and paid $9,204 in wages over a 1-year period.

A CETA participant received pay for 8 months totaling $5,800 after termination from the program.

Response

These amounts remain uncollected. The two cases are in the City Attorney's office and legal action is being taken by the City to collect the funds. The region has advised the City final action on this matter must be taken by early September (Las Vegas, Nevada), or the region will take other remedial action to collect the funds.

Item

Unsupported CETA participant payroll disbursements of $204,158 in CETA funds were made by one person preparing and distributing payroll.

Response

Regional audit has disallowed these costs based on missing time cards and discrepancies between time sheets and time cards. The prime sponsor submitted further documentation after reconciliation of logs and the final F and D allowed all but $9,374. This amount was paid on May 14, 1980. (Lowell, Mass.)

Item

$964 payroll overpayment caused by falsified time sheets which weren't reviewed by a supervisor.

Response

Case referred to the U.S. Attorney by the prime sponsor. County prosecuter received the case on March of 1980 and at the present time no action has been determined.

Item

A CETA suprevisor submitted fictitious employment forms and payroll documents totaling about $24,000. Reviews were not made and paychecks were sent to the supervisor.

Response

The party involved was found guilty and sentenced to 1 year in jail and a $1,000 fine. The prime sponsor now has safeguards in place to prevent re-occurence.

Item

Chief timekeeper falsified time and attendance reports of CETA participants totaling $3,019.

Response

No kickbacks to the timekeeper were found and the U.S. attorney declined prosecution due to lack of criminal intent by the subject. Contractor adjusted records to exclude hours not worked. Case closed 4/16/80.

Item

Creation of three "ghost" employees by a prime sponsor program developer involving $12,264.

Response

This case was closed on January 21, 1980. The WIN job developer involved was charged with mail fraud and the STate of Wisconsin was compensated $12,264 by the subcontractor.

Item

Hiring ineligible participants and paying them a total of $33,551.

Response

Regional office disallowed all costs involved. The prime sponsor is currently appealing the case to the Administrative Law Judge. (San Mateo, California)

Item

Subgrantee requiring CETA participants to pay $75 each per month for office supplies totaling $4,500.

Response

The regional office conducted a complete investigation into the matter and found no evidence to support the charge. (Berkley, California)

Item

Hired ineligible participants by falsifying records and claiming reimbursement of $7,899.

Response

After an investigation by the region, all funds were recovered. (San Diego, Calif.)

Item

$48,758 paid to a subcontractor for training not provided, and for participant salaries not earned.

Response

The FBI had conducted an investigation and recommended that the subgrantee be indicted. However, the U.S. attorney refused to prosecute the case. A recent audit of this subcontract was conducted by the State of California's Comptroller. This audit came up with no negative findings. (Berkley, California)

Item

Paying two regular employees a total of $300 with CETA grant funds.

Response

This case involved the CETA OJT hiring of two individuals who were already presently employed by the sub-contractor involved. All funds were recovered by the prime sponsor by nonpayment (equal to the questioned amount) of funds to the contractor. (Adams Co., Colorado)

Item

Requiring a participant to give a kickback of $150 as a condition for job placement.

Response

A prime sponsor staff counselor, who was instrumental in obtaining CETA employment for an applicant with a Lafayette, Colorado, subcontractor, later asked the same individual to falsely apply for emergency funds (CETA) and then turn the funds over to him for personal use. The case was resolved through full restitution of the funds involved. (Boulder Co., Colorado)

Item

Creation of "ghost" employees totaling $1,784.

Response

This situation involved "ghost payrolling" by CETA coordinator on the prime sponsor's staff. Satisfactory resolution of the matter was obtained through the Court including full court-ordered restitution of the misspent CETA funds. (Larimer Co., Colorado)

Item

$14,000 in property was missing (and presumed stolen) but not investigated by either the subgrantee or the prime sponsor.

Response

DOL does not have enough information to respond to this item.

Item

Over $500 of equipment was missing from one such grantee's inventory including a jig saw and a skill saw valued at $55 and $67 respectively. Investigations into their disappearance were not performed, nor were the items reported missing.

Response

Prime Sponsor has instituted a new property management system to insure all missing equipment is reported. (Eastern Middlesex Human Resource Development Authority)

Item

During a visit to one subgrantee, we saw a CETA supervisor watching a card game taking place among other city employees, while 9 CETA participants were laboring over their assigned jobs.

Response

Additional information (i.e. names, time, department(s) involved, etc.) would be needed in order for DOL to respond.

tem

contractor used $53,000 of CETA Title 1 funds for
ayment of wages to non-CETA employees engaged in
onstruction of new buildings not used for CETA programs.

esponse

contractor had mischarged costs. The contractor
ubmitted documentation which showed that the $53,000
as actually an allowable cost and that funds had
ot been used for construciton of new buildings. (New-
ort, VT--BOS Vermont)

tem

ive employees of a prime sponsor were paid $26,543
n total for which there was no evidence of any work
erformed.

esponse

his situation involves a subrecipient of the Columbia,
outh Carolinia, prime sponsor. The regional office
as disallowed these costs and has issued a final
Findings and Determination" letter to the prime sponsor.
dditionally, the regional office has ordered the
rime sponsor to take appropriate action to insure
hat contracted work is being performed.

Item

The Administrative Assistant of one prime sponsor's
Director was paid $12,506 with CETA funds although
she was not eligible for the CETA program.

Response

The individual in question was employed by the prime
sponsor (St. Louis, Mo.) in an administrative capacity
and was not a CETA participant and, therefore, not
required to be eligible for the program in order to
be employed in an administrative capacity.

Item

Excess cash balances at two subgrantees totaling $2,750
and $1,500 respectively. In both cases, these amounts
represented one half of average monthly expenditures.

Response

The prime sponsor (Imperial Co., Calif.) and its subgrantees may have excess cash balances at one short period during a month. However, these funds are normally expended at the end of each month. Additonally, the prime sponsor has not institutional accural accounting methods which minimizes cash on hand.

Item

A chief timekeeper stole or forged several CETA participants totaling $1,294.

Response

The individual was a CETA participant working as an interviewer in the Employment Security Agency. She was accused of stealing $3,700 in August 1979 and was convicted of that charge. Her sentence of two years was suspended to two years probation and restitution of $1,294.62.

Item

Prime sponsors were not reviewing subgrantee requests for cash or subgrantee cash balances and as a result excessive amounts of CETA money was being maintained by subgrantees. For example, one subgrantee, over the 6-month period we reviewed, had from 4 to 7 time more cash than it was permitted (from $372,500 to $728,890); another had excessive balances ranging from $78,000 to $263,000 over the 3-month period we checked. And a third received a cash advance of $1.2 million which represented enough money to last 2 months.

Response

In Milwaukee, the region has provided technical assistance to the prime sponsor on ways to improve its cash management system and a revised system is now in place.

Eastern Middlesex Human Resource Development Authority (EMHRDA) has acknowledged that the City of Somerville, a subgrantee of EMHRDA, had excessive cash on hand. EMHRDA now requires that Somerville maintain a minimum cash balance to cover immediate cash needs only. The problem was caused because of unreconciled accounting records.

In addition, the EMHRDA central office strengthened their cash management procedures. All subgrantees are allowed only a minimum balance to cover current procedures. All subgrantees are allowed only a minimum balance to cover current cash needs. When a subgrantee requests cash, the subgrantee must fill out a detailed Cash Advance Request that allows this office to review the reasonableness of the request, along with a weekly verification of the cash balance.

In Honolulu (county and city) all accounts now are on an accural basis which requires that subgrantees submit monthly invoices. There are no significant cash advances except for "start-up" advances which must be paid during the quarter received.

Item

One of these subgrantees committed $25,000 of its CETA money to purchase 1,024 water meters for installation in private homes. Officials attempted to justify this purchase by explaining that it was training 12 CETA participants to install and read the meters. The purchase was not detected by the prime sponsor because it did not have an internal control procedure requiring that purchases over a certain dollar limit be approved. We were successful in stopping the use of CETA money to purchase 500 of these meters ($12,475) because they had not been delivered or paid for at the time of our review. However, the remaining 524 water meters ($13,086) were delivered and paid for in 1978.

Response

Somerville, a subgrantee of Eastern Middlesex Human Resource Development Authority (EMHRDA), used Ceta funds to purchase 524 water meters at a unit cost of $24.95 that were installed in private homes as a training project for CETA participants.

The EMHRDA central office is in the process of collecting the $13,085.80 from the City of Somerville, and is expected that the funds will be returned to the grant by the end of the fiscal year.

Item

This same subgrantee used $329,000 of its excess CETA cash to finance its city payroll for one week. Over the ensuing 5-week period, the CETA payroll was paid by the city thereby liquidating this "debt." An erroneous withdrawal of funds from the CETA account, caused by insufficient supervisory reviews of withdrawals was the reason for this transaction.

Response

The City of Somerville Treasurer transferred $412,352 from the SOMS account of which $329,991 was used to cover expenses of a payroll for the City of Somerville. The amount was paid back in installments over a six week period. Somerville has taken the following steps to insure that this borrowing does not occur:

i) maintains a minimum balance to cover only immediate cash needs;

ii) the treasurer personally signs the CETA payroll, rather than using a signature stamp;

iii) all Somerville invoices and payrolls are paid on separate warrants from other City departments.

Item

None of the prime sponsors or sub-grantees we visited sufficiently verified CETA participant eligibility data provided on applications for enrollment into the CETA program creating an exceptionally high risk that ineligible persons are being trained and paid at the expense of needy people. In fact, one subgrantee did no verification at all. Furthermore, CETA participant files often did not contain sufficient information to determine eligibility. For example, 30 percent of 114 applications reviewed at one subgrantee did not contain any or sufficient information on the applicants previous income to determine if they were eligible. The importance of verifying eligibility data is evidenced by a Labor study which estimates that as many as 10 percent of CETA participants nationwide do not qualify for the program.

Response

EMHRDA (Eastern Middlesex Human Resource Development Authority) states that GAO did not bring up this issue at their exit conference. EMHRDA claims their eligibility determination process is extremely tight and disagrees totally with GAO's findings. The procedures required by EMHRDA of all subgrantees can be submitted which, according to the prime sponsor, will more than substantiate their sound system claims. The IMU monitors the eligibility process on an ongoing basis.

In Honolulu, all participants' eligibility are reviewed within 30 days of enrollment. Some 15 percent of all currently enrolled applicants are then reviewed in minute detail within a 6 month period.

Although in the past, the City of Tacoma, Washington had been found to have inadequate eligibility verification systems, an audit of the City's program found no ineligible enrollees. This was based on a 10 percent sample. Additionally their IMU routinely reviews their files and procedures to ensure there are no ineligible enrollees.

The Milwaukee prime sponsor was found not to be out of compliance with eligibility verification. In addition, in the last verification, there were no ineligible participants found. On July 30, 1980 the region provided suggestion to the PS as to how to improve the system of eligibility verification and as a result of the regional office suggestions, new procedures are now implemented.

Item

CETA participant's time and attendance reports were often not reviewed by supervisors or payroll personnel at several of the prime sponsors and subgrantees we visited. This resulted in (1) regularly paying CETA employee for 80 hours of work each pay period when this person worked only 60 hours--overpayments totaling $1,445 over 10 months; (2) participants being paid for 8-hour work days when they worked only half days; (3) paying a suspended employee for 35 hours of work never performed; and (4) accurate leave balances.

Response

In Tacoma, Washington, the city has collected most of the overpayment by withholding the last check of the individual. Only $600 is uncollected and City Attorney advised not to prosecute for collection of this amount.

In the Eastern Middlesex Human Resource Development Authority Consortium, the participants' supervisor is required to sign time cards; counselors verify that time cards are properly filled out and signed.

Item

Several grantees did not systematically approve, process, validate, pay, and record travel transactions. For example, one grantee did not always require travel orders to travel vouchers but rather paid fixed monthly travel allowances of $5 to $25 to employees. The lack of documentation makes it impossible to audit these disbursements and to establish their validity.

Response

Somerville did not systematically approve, process, validate, pay and record travel transactions.

The City of Somerville (subgrantee of EMRHDA) policy for reimbursing travel was used. The City identifies travel under the following:

Light - under 25 miles per month	$10 a month
Medium - 25-49 miles per month	$15 a month
Heavy - over 49 miles per month	$25 a month

Before reimbursement is made, the employee must submit a signed sheet listing all mileage, and reasons for travel. The City feels this policy saves them money. However, in light of the GAO findings, Somerville will adopt the policy of reimbursing travel on a per mile basis beginning October 1, 1980.

In the City of Honolulu and in the State of Hawaii, a revised procedure requires signed authorizaiton by the CETA director prior to incurring travel expenses. The Director must also review and approve all payments.

In Milwaukee a written request must be submitted to justify all travel. Regional review of these procedures indicates that in Milwaukee travel vouchers submitted are reviewed, approved and recorded with adequate safeguards and controls.

Based on a July 1980 audit report, the Tacoma prime sponsor as paying employees' mileage on the basis of a sliding scale under which an employee could receive $3.00/day for driving very few miles, e.g. 2 miles from office.

The auditors found this to be an "unreasonable policy. Based on this finding, the Tacoma CETA director has implemented a policy that no mileage will be paid for travel within walking distance of the office.

Further prime sponsor action could be required on this issue upon final issuance of the auditors report. However, any different policy would have to recognize that prime sponsor is currently following the same mileage policy as other City of Tacoma employees.

Item

Grantees did not always conduct annual physical inventories of property or investigate noted discrepancies. Furthermore, they frequently removed items from inventory records without explanation and sometimes expensed equipment rather than inventorying it. For example, one prime sponsor, upon conducting a physical inventory, discovered 19 items valued at $3,260 missing from its inventory but did not investigate the loss. Among the missing items were four typewriters, one dictating machine, a pocket calculator, and a duplicating machine--all having personal uses.

Response

The prime sponsor (City and County of Honolulu) was unable to determine actual losses because of an inadequate inventory system. Now in place, however, is a tight system in which the City and County offices maintain all property records, conduct a yearly inventory by an office outside CETA and all physical property is tagged.

City of Tacoma does an annual physical inventory and is not aware of any problems in this area.

The Milwaukee prime sponsor had no property management system. Now they have a system and auditors are onsite at present time examining this and other aspects of the prime sponsor's program.

Mrs. COLLINS. You mentioned 4 weeks was the time you would need to do other things. Perhaps you can provide information on these, too, within that time. That will certainly be helpful in having this subcommittee determine how well we are doing in tightening up the process.

Mr. GREEN. One issue we would like to raise, we have gone to GAO and asked for specific sites where these items have occurred. They have yet to supply us with their report.

Mrs. COLLINS. The subcommittee can provide those for you. We have them written down on the side of this sheet.

Mr. GREEN. Thank you very much.

Mrs. COLLINS. On September 28, 1978, ATS representatives testified before the subcommittee that the audit firm of Touche Ross had completed an audit of their Hudson County assessment contract. Department of Labor witnesses assured us that an audit would be made.

Today, almost 2 years later, we learn that an audit by DOL is planned. That is in the statement.

Doesn't this undercut any sense of DOL vigilance, particularly since the Department's panel of experts confirmed an earlier assessment by a DOL official that the contract was largely a waste of taxpayers' dollars?

Mr. GOLDSTOCK. That is underway at the present time. We have not contracted that out as we do in other cases. We have our own auditors doing the work right now.

Mrs. COLLINS. Has the Department continued to fund the prime sponsors under contract with the American Training Services in light of this Atlantic and Hudson County experience?

Mr. GOLDSTOCK. The prime sponsors are still being funded, yes.

Mrs. COLLINS. ATS still has prime sponsor contracts then?

Mr. GOLDSTOCK. There are contracts with the primes, yes.

Mrs. COLLINS. My time has expired.

Mr. Butler.

Mr. BUTLER. Thank you.

The Chairwoman referred to testimony of the GAO on May 20. On about page 8 she made reference to Mr. Egan, who reviewed the administrative activities of labor and its regional offices which support CETA as well as all other labor programs. Then they went through several things.

I would like to refer now to one which appears on page 10 of Mr. Egan's testimony:

> Labor's failure to seek competitive bids resulted in the award of a 12-month sole source contract for $99,000. Subsequently extended an increase of an additional $100,000 to a contractor whose qualifications and expertise were questionable at best.
>
> The returns on this procurement were described by labor officials as being of inferior quality, of only limited value, incomplete and late.

That is the testimony of GAO.

I have taken a small amount of time to look at these contracts, and I am concerned about their relevance to what you are doing.

Referring now to a demonstration project, an international manpower resource program, this is a March 29, 1978, demonstration project that I am quoting here from the National Institute of Public Management.

That is, I think, what GAO was referring to. Knowing how you eople talk, we would probably call it NIPM. So NIPM had a ontract proposal to develop comparative manpower curriculum nodules. This is an international power proposal. That is dated March 29, 1978.

I have another one with the same outfit. This is contract 71-11-79-02, dated February 15, 1979. I refer now to—page 5 of this proposal—"NIPM will be providing to the employment two technical assistance manuals addressed to the needs of LDC's."

What are they?

Mr. GREEN. LDC's? The acronyms sometimes throw me, Congressman, there are so many.

Mr. BUTLER. I am going to tell you I know what it is. It is "lesser developed countries"—"of lesser developed countries in two specific employment and training areas to be jointly determined by ETA and NIPM."

Now, here is another one, still part of the same series of contracts with these folks. This is a special provision of employment Contract 71-11-79-02, modification 1. The three areas planned for exploration are the "Employment Implications of Technology Transfer: Impact on Developed and Developing Countries."

Here is another one, "Brain Drain Between Developed and Developing Countries: Consequences for Employment and Training Policies."

The relevance of these contracts and their usefulness to the CETA program are questioned when we look at the work actually done according to the reports submitted by this contractor.

We have one 73-11-78-01—one called the "Manpower Component of the Ghana's Five-Year Plan" and another NIPM paper is prepared for presentation at Mexico City, Mexico, the National Institute of Public Administration, "Problems of Youth Unemployment: The European Experience."

Then we have another travel request—no, this is a monthly status report, September 15, 1978—from Mrs. Bussey to the Project Officer at ETA. This lists trips taken, including a work assignment at Paramaribo, Surinam.

Mr. GREEN. I assume it is somewhere in Asia.

Mr. BUTLER. Give or take a few thousand miles; but it is Surinam.

Here is another one. This is dated November 30, 1979, referring to the final draft of the technical assistance manual on organization and management of job creation programs applicable to developing nations.

Then we have another reference to a field consultation in Jamaica during May of 1979.

These are samples of this contract. May I ask one question?

Mrs. COLLINS. Yes.

Mr. BUTLER. What I want to know is where is the statutory authority for CETA funds to be used for the development of manpower policies in other countries? I want to suggest to you that I have a memorandum dated January 31, 1978 from Mr. William R. Hewitt to Mr. Ernest G. Green saying, "We do not have authority to spend our CETA appropriated funds to provide international assistance."

My question to you is where is the statutory authority for international assistance of this sort?

Mr. GREEN. I would argue a couple of things. One is that the Department and this Government's CETA programs have been examined and a number of countries—the English, Japanese, Germans—are looking at our approach to focus targeted employment activities. In fact, Secretary Marshall, in a number of exchanges with labor ministers from developing as well as developed countries, has cited many times the efforts that we have taken. They consequently have asked us in a number of cases to either refer information or in some cases, through State, to refer CETA prime sponsor operators to countries to give them technical assistance in how to. Employment and training is an important activity in almost every country. Being able to fix the needs of the people that are in need of activity is an important process that I find most nations involved in.

We think that the title III program that involves the exchange of information in this manner is not in violation of the statute. Also, it was a small contract compared to the other items——

Mr. BUTLER. Sorry, sir. $1.6 million has been contracted to NIPM during your tenure.

Mr. GREEN. $1.6 million, Congressman, is not involved in international travel or international exchange or international technical assistance.

Mr. BUTLER. I take issue with you on that.

Mr. GREEN. I will supply for the record the NIPM contracts.

Mr. BUTLER. I have them.

Mr. GREEN. Here is one in the field of public administration. That one does not involve international activity. That is a $361,000 contract.

Mr. BUTLER. I go back to my basic question. Where do you find statutory authority for ETA funds for development of manpower policies in other countries even if it is NIPM?

Mr. GREEN. The Secretary is authorized to undertake RFP programs to investigate and undertake studies, which will contribute to the development of improvement of employment and training programs and, increased knowledge about labor markets, and so forth. We think the exchange of information reference in section 311 gives the Secretary authority to do that.

Mr. BUTLER. Do you find anything in the legislative history that indicates funds are going to be used for international manpower studies of this sort?

Mr. GREEN. Exchange of information is a very important part of our problem. We have right now the problem of refugees, we have the problem of people coming back and forth across our borders. That deserves exploration. I don't see how we can resolve the employment issues for the eighties and nineties without beginning to look at it beyond the boundaries of these borders.

Mr. BUTLER. I yield back the balance of my time.

Mrs. COLLINS. Mr. Conyers.

Mr. CONYERS. Madam Chairwoman, I just note my colleague used at least 10 minutes and then yields back the balance of his time.

Mr. BUTLER. May I say if the Congressman attended these hearings more often he would find I usually use much more time than that.

Mr. CONYERS. May I ask for regular order, Madam Chairwoman.

Mrs. COLLINS. Regular order.

Mr. CONYERS. I think the Assistant Secretary makes a valid point but I don't want to pursue these created acronym programs that are then attributed back to the agency to find out whether this is or is not a violation of the regulations.

I am sure that the committee staff will examine it carefully and this is all part of the record and we might go from there.

Are there any overall recommendations, Mr. Green, that the Congress needs to be examining in terms of making your responsibility in terms of auditing and of oversight a little more effective?

Are there things you would bring to our attention in terms of the law and the regulations that flow from this really rather large responsibility?

Mr. GREEN. I think that there are a number of things I would like to say to you. As indicated by one of the earlier questions, every increase in information requested also creates a burden on the program operators and it is that balance that we are always caught between. But I would be happy, Congressman Conyers, to supply for you a series of things.

With the reenactment that would occur 2 years from now in 1982, there might be adequate time to get those additional amendments in.

Mr. CONYERS. I will be looking forward to them.

I notice that these are rather general allegations. You were not able to identify the names or the circumstances at this point or you are going to supply that.

Mr. GREEN. We will supply that. With the information that the staff will supply us on this, we will check into each and every one of those and send to the committee our report.

Mr. CONYERS. I don't have any further questions.

Mrs. COLLINS. Thank you.

Mrs. Snowe.

Mrs. SNOWE. Thank you, Madam Chairwoman.

I want to go back to a question I asked in the first round, as to the number of prime sponsors which have not been audited. Are we talking about the number of prime sponsors in the process of being audited?

Mr. GREEN. The Inspector General indicates that 29 have not been audited at all as of this moment out of 470.

Mrs. SNOWE. Are they in the process of being audited?

Mr. GOLDSTOCK. They are scheduled for audit. Some are in the process at the present time.

Mrs. SNOWE. What is the reason for delay?

Mr. GREEN. All but 29 of the prime sponsors have been audited now.

Mrs. SNOWE. I understand that. What is the reason for not completely auditing all of them? The program has been around since 1974.

Mr. GOLDSTOCK. There have been a number of reasons why they have not and a number why there should not be the problem in the future.

It was up to the Department of Labor to audit the prime sponsors. There is a severe shortage in terms of the number of auditors we have and the contract funds available for such audits.

We try to focus in on the audits that are required and the auditees which we can be the most help to. Fairly recently there has been an OMB circular which requires grantee-procured audits. That means that the primes themselves will be responsible for auditing and we will be responsible in some cases, as the cognizant agency for reviewing those audits and assuring quality control. I think that will solve a great deal of the problem.

Mrs. SNOWE. I frankly hope so.

Mr. GOLDSTOCK. So do I.

Mrs. SNOWE. Is it going to take 10 years to audit all the prime sponsors?

Mr. GOLDSTOCK. That should not be the problem now.

Mrs. SNOWE. How many auditors do you have?

Mr. GOLDSTOCK. We have less than 200.

Mrs. SNOWE. Have you asked for additional auditors?

Mr. GOLDSTOCK. Yes, we have.

Mr. GREEN. I think also, Congresswoman, there could be new prime sponsors. The 470 have not been a constant number since the inception of CETA. New prime sponsors have applied and received grants. The number of prime sponsors have increased from 403 in fiscal year 1975 to 475 in fiscal year 1980.

Mrs. SNOWE. I want to pursue another area for just a moment. In January of this year, the Office of Youth Programs released a report on its special monitoring of summer youth employment in 11 large cities. The report gives an assessment of regional office performances in the areas of plan review, monitoring and corrective action.

While the report found the plan review function to be adequate, its ratings in the other two categories were much lower. Of more than half the cities studied, regional office monitoring was found to be minimally adequate or worse. The report found in only 3 out of the 11 cases did regional offices take adequate corrective action. Six of the 11 were totally inadequate. This leaves the impression although the Department has the power to act on problems, it does not do so.

What have you done to change this?

Mr. GREEN. I think in those 11 cities we identified prime sponsors we can clearly show adequate monitoring by requiring prime sponsors to review closely the operators of the summer program, to provide training for the supervisors to assure accurate time cards on the participants, and to work with the school systems to provide educational assistance where needed.

One of the things that GAO found last year in going out was that those 11 sites for the most part in the summer program had a tremendous improvement in the quality of work as well in the oversight and supervision of the participants.

Mrs. SNOWE. The report also discovered the District of Columbia summer youth program was extremely poor and it was judged to be the worst of 11 big city programs evaluated.

The evaluation report concluded there were problems in all aspects of the programs and the incidence of these problems were high by any standard.

It is my understanding the District of Columbia program has been given an additional $100,000 for the summer program. Why are you awarding extra money?

Mr. GREEN. The District program this year has a program to train all worksite supervisors. The monitoring we have of the first 30 days indicates that training on the worksite has been considerably improved over last year. We have stationed summer interns from our ETA Regional Office full time in the District program.

The District has set up a payroll processing system. The crisis that occurred 2 weeks ago as announced in the press is being resolved. We are working with the District to see that 2 or 3 days before the end of the city's first payroll period the participants are paid. The worksite supervisors now have adequate paperwork and, as you know, the District took it upon itself to remove the director for poor performance.

We think the District program, when reviewed at the end of this summer, will show a considerable improvement both in quality and operation of the summer program.

Mrs. SNOWE. Mr. Green, that is fine and I hope that works out as well but I think one of the problems with your department is you constantly are reacting to problems rather than taking action to avert these sorts of problems. Oftentimes the CETA programs become headlines in the papers, not only here but in other parts of the country, simply because of the failure of the Department to do anything to initiate action so we can avoid these problems.

Mr. GREEN. We utilized our funds to examine not only what the participants were doing but how they trained the supervisors, how they organized the worksites, and how they reviewed them. I would think that this reflects a consistency with the 1978 amendments that the Department has taken aggressive action, has identified 11 large summer users of the SYEP program, and has moved to take corrective action.

Mrs. COLLINS. The time of the gentlewoman has expired.

Mr. Maguire.

Mr. MAGUIRE. Thank you, Madam Chairwoman.

Mr. Green, I am concerned about the record of your agency with respect to audits of contracts. As long as 3 or 4 years ago serious questions were raised, in some cases by your own people, and then subequently by this subcommittee.

It is now several years since the audits of the Hudson County and Atlantic County contracts in New Jersey were completed. But there is no final determination by your Department as to the allowability or disallowability of many thousands of expenditures under those two programs.

By way of contrast, we find that when there was some concern on the part of a private party, Mr. Krivit and his firm, about whether or not he had been properly treated by members of your Department, a very rapid resolution, indeed, was achieved. It was

achieved through an investigation which, as I understand it, you and your staff now indicate was deficient in some respects. Not the least of these deficiencies was that the investigator had been involved personally in matters that were under investigation, both with some of the people involved and with the substance.

Whatever may be the case with the quality of your internal investigation, it resulted in a letter of apology personally signed by you. The letter had the practical effect of giving a clean bill of health to the private party involved at a time when you had made no determination as to the allowability or disallowability of expenses in the CETA program under the contracts I previously mentioned. And these expenses were for so-called legal services to this very same private party, many of the particulars of which had been questioned by your own auditors.

I wonder if you could start by telling me how your agency was able to act with such impressive dispatch and issue a letter of apology after you were contacted by these private parties who were concerned about their reputations while on the other hand, to this day, to the best of my knowledge, you have been unable to make any determination as to whether or not thousands and thousands and thousands of dollars of public moneys were or were not properly expended in payments to that party under contracts which you administer?

Mr. Secretary, how can you justify that disparity in your actions? Would you start with that, please.

Mr. GREEN. Congressman, I don't see it as a disparity in actions. It simply was a response as we tried to act in as timely a manner as we can on all of our matters. As you know, section 123(f) of the act does prohibit preapproval of attorneys by the Secretary of Labor. It does not allow payment of legal expenses unless the prime sponsor certifies payments are not unreasonable in relation to the fees charged by others providing similar services; and that the services cannot be competently provided by employees of the prime sponsor.

We have now developed regulations. The Solicitor of the Department, Ms. Clauss, is here and will describe that process to you.

Mr. MAGUIRE. Before we get to that, if you don't mind I would like to know why it is that to this day we have no final determination of whether the payments to Mr. Krivit of CETA moneys by the Hudson County CETA program for lobbying in Washington with Congressmen and Senators, and for preparing remarks for CETA principals at conferences, were allowable expenses. In short, why haven't these questions finally been resolved after all this time?

Mr. GREEN. We have sent a team of people up to review that and have made the determination which ones are allowable and which are not.

Mr. MAGUIRE. You have made the determination?

Mr. GREEN. Yes, sir.

Mr. MAGUIRE. Perhaps you can tell us what those determinations are.

Mr. GREEN. I will supply them for the record.

Mr. MAGUIRE. My understanding was those determinations would not be made.

Mr. GREEN. Staff has advised me it is an informal resolution; it is not final; that the process has not been finalized.

Mr. MAGUIRE. That sounds more like what we have been hearing for 3½ years.

Mr. GREEN. No; the process allows an informal resolution. We review the data, submit our decision back to the prime sponsor for them to review, and then to come back to the Department. Then it can be appealed. It can go before an Administrative Law Judge. The entire process could go on for 2 or 3 years.

Mr. MAGUIRE. In fact, it has gone on for longer than that. Have you made any determination yet about the allowability of fees paid by the Bridgeport, Conn. CETA program to Mr. Krivit which have also been questioned by audits?

Mr. GREEN. A review of that is also in the informal resolution process.

Mr. MAGUIRE. My understanding is that there were questions raised by your auditors on the Bridgeport, Conn. project, and that Mr. Krivit arranged a meeting between the mayor of Bridgeport and yourself. Do you recall such a meeting?

Mr. GREEN. No, sir, I don't.

Mr. MAGUIRE. Is it true that immediately after the meeting, you instructed the regional office to rescind actions that had been recommended or that had been actually applied in the Bridgeport case?

Mr. GREEN. We try as we can, Congressman, to hold an open door to elected officials, to community-based organizations, and to neighborhood groups to hear their complaints. I am sure I have spoken to many mayors in the last few years. Our procedure is to review the instances and then to try to act as equitably as we can.

Mr. MAGUIRE. Is the Bridgeport case still going through an informal process of evaluation or has the case been closed regarding allowable expenses?

Mr. GREEN. I don't know if it has been closed at this moment.

Mr. MAGUIRE. Is there somebody here with you that knows?

Mr. GREEN. I will check with my regional office to see where the case is; yes, sir.

Mr. MAGUIRE. Can you tell this committee now? I see you have a whole row of people here.

Mr. GREEN. There is no one who can tell you right now.

Mr. MAGUIRE. But the subject of these hearings, Mr. Green, is in fact this auditing procedure and contracts which this committee has previously questioned. This inquiry goes back to January of 1978.

Mr. GREEN. As I read the letter of invitation, Bridgeport was not mentioned as one of the issues about which you wanted specific answers. I will be happy to supply it.

Mr. MAGUIRE. I hope we can leave the record open for that purpose.

Mrs. COLLINS. The record will remain open.

[The information follows:]

Status of DOL's Determination as to the allowability of fees paid to Krivit by the Bridgeport prime sponsor:

DOL has not yet made a final determination as to the allowability of fees paid to Mr. Krivit by the Bridgeport prime sponsor. These fees are now being reviewed by

DOL auditors as a part of an ongoing audit of the Bridgeport program. A preliminary report is expected from the auditors in approximately 60 days.

Mr. MAGUIRE. May I just take another moment, Madam Chairwoman. My understanding of the Bridgeport situation is that Mr. Krivit received in 1974 $2,000 from the Bridgeport contract; in 1979, $58,000; and in 1980, $58,000. We also know that he was being paid at the rate of $36,000 a year by Hudson County.

I think, Mr. Green, that it is absolutely appalling that your agency should, after 2 or, in some cases, 3 years, not have made final determinations on questions raised by your own auditors 2 or 3 years ago concerning the appropriateness of these expenditures of public moneys. Yet, in a matter of a few weeks, you can issue a letter of apology over your signature: A document which I might describe, Mr. Secretary, as an abject letter of apology by your Department and which Mr. Krivit is now able to carry around which in effect says, "look, the Assistant Secretary of Labor says everything I do is OK." Is that not the practical effect of the letter?

Mr. GREEN. That is not the effect of the letter. I think you misrepresent it and you misrepresent it very widely.

Ms. CLAUSS. May I address that question, please?

Mrs. COLLINS. Yes.

Ms. CLAUSS. I think the difference, Mr. Congressman, is that you are talking about three agencies here. You are talking about Mr. Green's Employment and Training Administration, which has to resolve the audits once questions are raised, and then there is a process once the grant offices have made their decisions. You have to go through the determination and then these recipients have appeal rights.

Mr. Green has already stated for the record the number of audits that have been resolved. We have 75 on appeal.

As a separate matter you are talking about the Krivit matter, and that relates to the Solicitors office. We have our own time schedules. This did not involve a matter anywhere near as complicated as an audit. It was not related to the audit. It involved charges of employee misconduct and was handled not by Mr. Green's office but my office and the Inspector General.

On the conduct of the audits you have the Inspector General's staff. I think I can state for the record that Mr. Green had nothing to do with the Krivit matter until the Inspector General and I had already determined proper handling.

Mr. MAGUIRE. Did you draft this letter?

Ms. CLAUSS. I did draft that letter.

Mr. MAGUIRE. Would you not have thought that in drafting such a letter which the party in question was clearly going to use, perhaps even in seeking——

Mrs. COLLINS. Mr. Maguire, your time has expired. I will yield my time to you.

Mr. MAGUIRE. I thank you very much. I do have a markup in another committee and I appreciate it.

Mrs. COLLINS. I understand.

Mr. MAGUIRE. Would you not have thought that in providing this letter, which includes statements such as, "I can further assure you the Department of Labor has no reason to believe that you have represented your clients before the Department in other than an

honorable and proper fashion," you might have included a reference to the fact that there were unresolved matters pending before the Department.

Would it not have been sensible to include that information in this letter?

Mr. GREEN. I would make a couple points, Mr. Congressman. That wasn't the issue. The issue was whether or not employees have told prime sponsors that under no circumstances could CETA funds be used for legal services, whether they had told prime sponsors that even if the city employed the people out of their own funds they would not appear at meetings or work with certain attorneys. Those were the issues that were addressed.

With respect to the audits——

Mr. MAGUIRE. With all due respect——

Mr. GREEN. I would like to state one thing for the record, Mr. Congressman: That the audit of Hudson County hadn't even been completed at the time this matter arose. We can supply for the record——

Mr. MAGUIRE. The auditor, however, had raised questions about specific expenditures including expenditures by CETA to Mr. Krivit for services which were questioned by the auditor.

Mr. GREEN. There was no final audit.

Mr. MAGUIRE. There still isn't one to this day.

Mr. GREEN. No, there has been a final audit prepared by the auditor. At that time there was not even a final audit by the party.

Mr. MAGUIRE. Is the auditor you are referring to the Krivit auditor whose report a year ago said they spent this much money and they have this money——

Mr. GREEN. No. I am referring to the employee of the Inspector General who was in the process of auditing the Hudson County contract.

Mr. MAGUIRE. Has that audit been completed?

Mr. GREEN. It was right around the time of October or November.

Mr. MAGUIRE. Did it address the issue of whether these activities, already paid for, were in fact allowable expenses?

Mr. GREEN. We will supply this for the record.

[The information follows:]

The most recent audit of the Hudson County Consortium for the period October 1, 1976 to December 31, 1977 was issued February 6, 1980. One of the audit findings was "Legal Fees Should Be Reviewed by ETA." The audit report stated: "Many of the services performed by Krivit & Krivit appear to be general in nature and it is not clear to what extent they were necessary for the proper and efficient management of the CETA program." Furthermore, the final audit report, prepared after a review of the grantees response, stated: "We have reviewed the documents submitted by the firm of Krivit and Krivit. While we are no longer of the view that their services were needless or obscure and while we are not recommending a cost disallowance at this time, in our opinion, the extent to which the services were necessary for CETA operations is not free from doubt. Therefore, we are recommending a further review by ETA."

Ms. CLAUSS. I understand that it did not question any issues raised as to the questioned costs, didn't disallow costs, but questioned costs to be resolved; but that was not the allegation of misconduct that one of our employees had contacted a prime sponsor and said, you should know that Mr. Krivit is being investigated by the Inspector General.

That was the statement that was incorrect. That letter was designed to address the fact that Mr. Krivit was not being investigated either by the FBI or the Inspector General. The people were our own employees who were being investigated.

When we receive from outside parties allegations of misconduct we put a high priority on that.

Mr. MAGUIRE. Are you pleased personally with the investigation that was conducted of this matter?

Ms. CLAUSS. For the purposes it was adequate. I reread it, all of it, over the weekend. It was more than adequate for our purposes.

Mr. MAGUIRE. Did you know he and Mr. Pollack had some earlier discussions and contacts on this matter?

Mr. GREEN. The Inspector General's Office is a separate office and I was unaware of any prior relationship between the investigator——

Mr. MAGUIRE. But you do know now?

Mr. GREEN. I have been informed.

Mr. MAGUIRE. Wouldn't you think this might have had some effect on the investigation?

Mr. GREEN. I think it is most unfortunate that an investigation was assigned to someone with a prior relationship, however, my letter was based on the admissions of the employees. What perhaps should have been explored was whether or not there was in fact real misconduct on the part of our employees.

Mr. MAGUIRE. What is the Department, Mr. Green, going to do about making clear, precisely clear, exactly what kinds of activities are, or are not, reimbursable under the general heading of legal services and grant administration?

Mr. GREEN. I will allow the solicitor to answer that. We have had discussions with a number of places—Justice, OMB—to come up with an adequate determination of that.

Ms. CLAUSS. We are in the process, Mr. Congressman, of drafting very comprehensive guidelines. I think that your questions have indicated an area of real lack of guidance to the prime sponsors, that they don't have any good way of determining whether or not they are complying.

Mr. MAGUIRE. When are we going to have this guidance?

Ms. CLAUSS. It is in draft now. We are discussing it with OMB and with Justice, and my personal target is 2 weeks but for the record let me say a month.

Mr. MAGUIRE. These guidelines will definitively tell the regions what is and is not allowed under the statutory language of the Maguire amendment?

Ms. CLAUSS. That would be its purpose, yes.

Mr. MAGUIRE. When will you have a determination as to what expenses should have been allowed under the law at the time with respect to the Krivit vouchers?

Ms. CLAUSS. I am sorry, that is just not under my jurisdiction. We will get that for the record.

Mr. MAGUIRE. When will we get that, Mr. Green?

Mr. GREEN. As I indicated, there is an appeal process. It depends on how fast we can move it through the legal process. If the prime sponsor decides to appeal it, asks for a date before an Administrative Law Judge, Congressman, I do not know.

Mr. MAGUIRE. You understand my frustration?

Mr. GREEN. I do.

Mr. MAGUIRE. We have been talking about this with your staff for 2 years.

Mrs. COLLINS. The time of the gentleman has expired.

Mr. MAGUIRE. Thank you very much and I appreciate your yielding me the time.

Mrs. COLLINS. Mr. Butler.

Mr. BUTLER. Mr. Green, taking up where I left off on the subject of NIPM, you recall that we made reference to the GAO report that the returns on this procurement were described by Labor officials as being of inferior quality, of only limited value, incomplete and late. This is by Labor officials.

I don't know at what time you received that evaluation by the Labor officials.

Mr. GREEN. I don't think, Congressman, that is a Labor Department review by the administering office. I did not see a formal reply by my staff people of that project.

Mr. BUTLER. Are you challenging this statement made by GAO that the returns on this procurement were described by Labor officials as being of inferior quality, limited values, incomplete and late? You are saying that is——

Mr. GREEN. Certainly I am challenging that.

Mr. BUTLER. You are saying when he says Labor officials made such a description, no Labor officials made such a description.

Mr. GREEN. I don't know who they are. They are unnamed, unspecified and there is no written document. I don't know who they are speaking of. They don't mention the contract officer that oversees the contract responding. If you have information as to who the individuals are——

Mr. BUTLER. Yes, I have the information from the General Accounting Office.

Mr. GREEN. We have not had that.

Mr. BUTLER. This is the first time in the testimony of your Department and yourself that they have challenged the accuracy of that statement?

Mr. GREEN. Challenged the accuracy of the review of these projects, certainly.

Mr. BUTLER. No. The assertion is made and if this is inaccurate I think GAO ought to answer for it.

Let's assume that this can be cleared up. Let me turn to the memoranda on NIPM. I have one, January 31, 1978, from Mr. Hewitt to Mr. Ernest Green. It refers to Phil Rutledge.

Mr. GREEN. He is the president of the National Institute of Public Management.

Mr. BUTLER [reading]. "While Phil's proposal is an interesting one we cannot finance it as it is laid out. We do not have authority to spend our CETA appropriated funds to provide international assistance.

"Moreover, there are a couple of programmatic reasons why we should not undertake this. Having said that, there are ways we could provide some funding to Phil's National Institute of Public Management, NIPM, at least to get started if you wish to do so."

Then there is a memorandum of December 1978 from Mr. Lloyd Feldman who is a research man, I believe, to Mr. William Hewitt, and I am quoting, "In short, the combination of a very limited budget for the complete project and the inclusion of a number of costly nonrelated activities under the heading Curriculum Development could result in a large portion of the $100,000 Assistant Secretary Green has allocated—and I guess that means the money was set aside before the proposal was made—for this project being drained off to the disadvantage of the Government for activities which may be of interest to NIPM are not necessary for the achievement of the project's objectives."

Skipping a few lines, "To expedite the further development of the proposal I have offered to accept in nonpolished form the additional information to be provided by NIPM and to integrate the material myself with the original proposal in my own notes provided final project design which both ETA and NIPM can review."

What that says to me is that you decided to provide institutional support for the contractor and your staff wrote a proposal for it to submit.

Not surprisingly, the proposal was funded when submitted.

On page 14 of your statement today you say the sole source procurements—that is what this was—are used for specific efforts requiring highly specialized experience or a unique capability.

I have two questions. Number one, where in your regulations or guidelines do you have spelled out the authority for sole source procurements and where do they appear prior to your testimony today? And second, what are the guidelines for determining whether this highly specialized experience or this unique capability exists?

Mr. GREEN. The sole source procedure is one I don't sit on. It is independent. It rests in the administration and management section of the Department. There is a Sole Source Board which must approve each of these contracts. That is not in ETA.

Second, as I indicated earlier, we think that looking at international labor matters, exchange of information, transfer of labor across borders, is an important item for this country. I think you are sticking your head in the sand not examining an exchange between other countries——

Mr. BUTLER. Since my time is limited, may I stick my head in the sand and go back to sole source procurement. You say you are not a part of it?

Mr. GREEN. No, sir.

Mr. BUTLER. Explain what you are talking about.

Mr. GREEN. There is a Sole Source Board.

Mr. BUTLER. Explain the Board.

Mr. GREEN. It is composed of Assistant Secretary Zuck—and the other members I am not sure of. If in ETA there is a sole source procurement request we have to submit it to Assistant Secretary Zuck and his operation to approve it. The sole source justification is either accepted or rejected by the Board.

Mr. BUTLER. If I had time for another question——

Mr. GREEN. If I may finish the answer.

Mr. BUTLER. Certainly.

Mr. GREEN. If we cannot get sole source approval, then the proposal is not approved.

Mr. BUTLER. If I have time for another question I would ask you do you recall how many times sole source procurements have been rejected by this committee or board?

Mr. GREEN. A number of times. More times than they have been approved.

Mr. BUTLER. Can you supply us those for the record?

Mr. GREEN. Sure.

[The information follows:]

REJECTIONS BY THE SOLE SOURCE BOARD OF ETA SOLE SOURCE PROCUREMENTS

In fiscal year 1979, ETA submitted 76 sole source procurement requests. Of these 8 were disapproved by the Board. So far this fiscal year, ETA has submitted 77 requests and 18 were disapproved.

Mrs. COLLINS. The time of the gentleman has expired.

Mr. Conyers.

Mr. CONYERS. Madam Chairwoman, I have no questions of the witness. I yield back my time.

Mrs. COLLINS. Mrs. Snowe.

Mrs. SNOWE. I yield back my time.

Mrs. COLLINS. I will yield to the gentleman.

Mr. Butler.

Mr. BUTLER. This is a pleasant surprise. Thank you.

Each of the contracts that was awarded to NIPM—and I believe there are eight of them based on our RFP—has been awarded on a sole source basis. The justification for this in each of the contracts has been that the contractor has specialized experience or unique capability to perform the required work.

For example, this was the reasoning used in the Manpower Studies I referred to earlier. Yet the contracting organization had been in existence for less than 3 years and prior experience was from working on Department of Labor manpower contracts.

The monthly progress report gives the appearance of an organization starting up—a new organization. One of these grants is referred to as a startup grant.

How do you justify awarding this contract without allowing others to compete for it when this is essentially a new organization?

Mr. GREEN. Phil Rutledge, who is the principal, has been a distinguished professor in the field of economics and manpower planning, public management and public administration for some time.

Beyond this I think the organization and the principals in it can stand firmly on their record and their credentials and their experience. On that the Department made the judgment.

Mr. BUTLER. Are there guidelines anywhere for highly specialized experience or unique capability which you apply in deciding whether to recommend a sole source contract?

Mr. GREEN. As I said, the recommendations have to go before the Sole Source Board and meet their approval. Certainly the capacity of uniqueness, no one else——

Mr. BUTLER. No. You misunderstand my question. Are there guidelines for determining whether the highly specialized capabili-

ty or experience exists? Are the guidelines written so somebody can make this determination?

Mr. GREEN. They are in our procurement regulations; yes, sir.

Mr. BUTLER. Will you supply a reference to those guidelines for the record?

[The information follows:]

LOCATION OF DEPARTMENT OF LABOR GUIDELINES FOR DETERMINING SPECIALIZED CAPABILITY OR EXPERIENCE FOR PURPOSES OF SOLE SOURCE PROCUREMENT

The Department's guidelines may be found in its procurement regulations at 41 CFR 29-3.210-50 and in The Department of Labor Manual Series 2-830.

Mr. BUTLER. In the past five years NIPM has received eight grants from ETA totalling more than $1.6 million. I want to correct the suggestions before in my questioning of you that all of these were internationally related. I recognize my error. I want the chance to clear that up. You were correct in that.

In the course of these contracts your allowances for overhead costs have risen from 20 to 38 percent to 45 percent and ultimately to 47 percent. That is an awful lot of overhead. This progression is something that ought to be developed in the record. Can you explain?

Mr. GREEN. Each of the overhead costs would have to be reviewed and they would have to justify it, otherwise, the cost is not approved.

Mr. BUTLER. Let me understand that. You are saying that before the contract is signed or entered into, the percentage allocated to overhead costs has to be justified.

Mr. GREEN. They come in with a justification.

Mr. BUTLER. And there should be in the files in your records somewhere a statement which explains why this percentage is extraordinary. Is that correct?

Mr. GREEN. There is an explanation as to how they arrived at that percentage. Whether it is extraordinary or not I don't know. If you take a university like Harvard, I think the overhead they charge back to the Federal Government is about 55 percent. I don't know whether that is extraordinary or high but I will supply how we approve the overhead that is in those particular contracts.

Mr. BUTLER. Rather than take up our time at this moment I will have counsel give you a list of these contracts. There are eight of them. They are the ones with NIPM with increasing percentages of overhead costs. We want your record of that, whether or not your file reveals that you justified this at the time the award was made.

[The information follows:]

The process used to determine the overhead rate is as follows:

A contracting organization must first submit an indirect cost proposal package to DOL's Office of Cost Determination. The proposal is reviewed for completeness, accuracy, allowability, allocability, and reasonableness as determined by Federal regulations. Costs that should have been billed direct are removed from the indirect cost pool.

When the proposal is based on estimated or budgeted information, a provisional indirect cost rate is issued. The provisional rate is a temporary billing mechanism used for reimbursing the amount of indirect costs applicable to a grant or contract. The actual indirect costs are determined at the end of the organization's fiscal year. At this time, final indirect cost rates are established.

Each step of this Federal procurement procedure was followed for the contracts with the National Institute of Public Management (NIPM). The approved indirect cost rate for NIPM has varied from 38 percent to 44.5 percent (calculated as a

percentage of total direct costs, less equipment, major subcontracts, alterations and renovations, and flow-through money) during the period of the contracts in question. In one case NIPM received a temporary billing rate of 27 percent (of total direct costs, which is a larger base) prior to the establishment of a 38 percent negotiated provisional overhead rate. This temporary rate was given to enable the project to get under way.

The 47 percent rate referred to in the hearings was calculated as a percentage of salaries, wages and fringe benefits. Had the allowable 44.5 percent rate (calculated as stated in the above paragraph) been used, the cost to the government would have been high (by over $5,000). Thus, the higher rate, using a smaller base, was advantageous to the government.

Mr. BUTLER. Can you tell me whether the Department follows up to find out what the indirect costs have been used for?

Mr. GREEN. Certainly. Those contracts are audited as are the prime sponsors, and as are other title III contractors, and there would be a determination.

Mr. BUTLER. We are not aware of any audits of any NIPM contracts to date. Do you know of some that we may not know of?

Mr. GREEN. I don't know whether the NIPM contracts have been audited at this moment or not.

Mr. BUTLER. Will you provide us with the information?

Mr. GREEN. I certainly will.

Mrs. COLLINS. The time of the gentleman has expired.

[The information follows:]

AUDITS TO DATE OF DOL CONTRACTS WITH NATIONAL INSTITUTE OF PUBLIC MANAGEMENT (NIPM).

None of the contracts with NIPM have been audited to date. However, the OIG Office of Audit is currently developing an updated audit plan for all contracts issued by ETA's Office of Policy Evaluation and Research (OPER) and Office of National Programs (ONP). All DOL contracts with NIPM will be audited.

Mr. BUTLER. May I just say a letter to NIPM today requesting an audit would not be considered an audit. I would like to know specifically if there are any audits in existence or in progress at this moment with reference to these contracts.

Mrs. COLLINS. Mr. Green, it is this subcommittee's understanding from having talked to a number of people who run the schools or training programs that there are groups of people who are alleged to have connections, whatever that means—I think we generally know the connotation there—who have set up unaccredited schools or training programs and who obtain CETA clients or subgrants.

Has the Department done anything to prevent this sort of thing from happening? It is my further understanding that the people who are accredited feel that this problem is causing a blemish on all the schools for training.

Are you aware of this problem?

Mr. GREEN. No; I am not.

Mrs. COLLINS. This subcommittee can provide you with the kind of information I am talking about. I would like to have a response from you. That is something we certainly don't want to have happening in the CETA program because we are all interested in seeing the maintenance of CETA.

We are interested in this hearing in seeing that funds are being used appropriately and not being wasted. I would like you to answer a number of other questions that I am going to read into the record to which you will provide the answers.

I want to know how the Department can be assured that prime sponsors are entering into a reasonable and cost effective contract with subs. How the Department can assure that subcontracts contain specific criteria for judging performance and goals.

It is my understanding that sections 103(b) (13) and (14) require a list of specific contracts from the previous year and an evaluation of those contracts to be included in the annual plan.

I want your response to tell us whether or not prime sponsors have complied with this particular provision.

We also want to know whether funding decisions have been based on these evaluations or if other factors intercede. If they do, we need to know what they are.

We want you to, for the record, provide us with the total amount of disallowed costs collected by the Department from prime sponsors.

We want you to indicate for each collection completed the name of each prime sponsor, the method of collection, and the amount collected.

In addition, we want you to list those disallowed costs which have not been collected, indicating the prime sponsor and the amount.

The 1978 amendments to CETA added a new section 106(g) which gives the Department the power to withhold funds from a prime sponsor's current grant in order to collect disallowed costs which were incurred in any previous fiscal year.

I want to know a little more detail about that.

We want to know whether the Department used this power to collect disallowed costs. Please list the specific instances indicating the prime sponsor and the amount withheld.

On May 21, page 9 of the Department's testimony responded to our question about the allowability of travel, food and lodging costs by saying that, "CETA regulations carefully spell out what are and what are not allowed costs."

How can this be when you have yet to settle claims from Hudson County going back to 1974? We want firm, solid answers to that.

We want to know whether you think that current regulations on allowable legal services similarly carefully spell out what is permitted.

I will give you a list of all these I am reading into the record.

Mr. Goldstock, on May 21, the chief of audit at the Department of Labor stated, "The audit process can be completedly frustrated if a prime sponsor decides not to audit itself under the new regulations which allow grantee-procured audits."

Will you submit for the record how the Department intends to manage this audit function under the new grantee-procured audit system, unless you can answer that now.

Mr. GOLDSTOCK. I prefer to submit it.

[The information follows:]

Question

How does the Department intend to manage the audit function under the new grantee-procured audit system?

-- What role will the Department play in the choosing of auditors?

-- How will the Department determine whether competent auditors have been chosen by prime sponsors?

-- How will the Department be able to assure that the work done by prime sponsors is of acceptable quality?

-- Will the Department require a training period for auditors that are new to the CETA system?

-- In short, how does the Department intend to manage this system so that we can be assured that the audits will filfill their function as opposed to being a cursory review by a friendly audit firm?

Response

The OIG annually will notify grantees whether the OIG itself plans to audit them or whether they are required to perform an audit of their own operations. To assure that the grantee procured audits will fulfill their function, as opposed to being a cursory review by a friendly audit firm, the OIG plans to manage the audit process by negotiating a "Memorandum of Understanding" with CETA prime sponsors.

The Memorandum of Understanding, in accordance with the Department's regulations at 41 CFR 29.70.207-2(h), will provide for the following:

1. Obtaining a complete listing of contractors/subgrantees and approving the grantees sample audit selection.

2. Reviewing and approving an advance copy of the Request for Proposal (RFP) prior to issuance by the grantee. This would include approval of the audit design.

3. Receiving and reviewing copies of the audit contract.

4. Provision for OIG attendance at audit entrace conferences, quality control reviews during the course of audit field work, and attendance at exit conferences.

5. Reviewing and determining acceptability of the draft and/or final audit report.

Answers to the specific detailed questions are listed below.

Question

-- What role will the Department play in the choosing of auditors?

Response

-- The Department does not anticipate any role in actually choosing the auditors; in fact, provisions in OMB Circulars A-1-2 and A-110 may preclude a Federal role in the selection of auditors for grantee-procured audits.

Nevertheless, the Department plans, using the authority of the CETA Act and implementing regulations, to maintain an active role in reviewing and approving the Request for Proposals (RFP) when a grantee intends to contract with a CPA firm.

Where grantees plan on using state or local auditors, the OIG will seek to ensure that applicable criteria for organizational independence is met and that the auditors are in fact independent.

In addition to reviewing RFP's and state or local auditors independence in order to ensure that there are provisions for a satisfactory audit, the OIG plans an extensive quality control program to ensure that the audits are in fact acceptable.

Where corrections are needed, audit work or reports will be rejected and audit firms or organizations asked to make corrections.

Question

-- How will the Department determine whether competent auditors have been chosen by prime sponsors?

Response

-- The qualifications specified by the Comptroller General are required for grantee-procured auditors. This means that when outside auditors are employed the audits must be conducted by independent certified public accountants or by independent licensed public accountants, licensed on or before December 31, 1970, who are certified or licensed by a regulatory authority of a State or other political subdivision of the United States.

The Department believes that the review and approval of the RFP process or determination on auditor independence will do much to ensure that competent auditors are chosen. However, only a sound quality control program can detect and therefore safeguard against incompetence.

Question

-- How will the Department be able to assure that the (audit) work done by prime sponsors is of acceptable quality?

Response

-- A sound quality control program is the only way to assure that audit work obtained by prime sponsors is of acceptable quality.

The elements of a sound quality control program include review of the contracting process between the grantee and the audit organization; desk review of the draft and final audit reports; review of the audit workpapers; and review of the on-site audit work.

The purposes of these reviews are to ensure that the grantee and the audit organization are both fully aware of their responsibilities; to ensure that the audits are conducted in accordance with applicable standards, including the use of appropriate audit guides and accompanying audit procedures; and, to insure that the expected audit objectives are accomplished.

The results of the quality control reviews should be made available to all other interested audit agencies. The program must also contain provisions for notifying the grantee and audit organization when corrective action is required as a result of the review. Major inadequacies or repetitive substandard performance of independence auditors should be referred to appropriate professional bodies.

Question

-- Will the Department require a training period for auditors that are new to the CETA system?

Response

-- Departmental regulations in Title 41 CFR Part 29-70 state that "The OIG shall provide guidance to non Federal audit staff concerning the proper application of Federal audit standards to an audit of a recipient or subrecipient." Training is certainly one part of such guidance which will be encouraged for all auditors engaged by prime sponsors who are new to the CETA system. And while such training cannot be specifically required, it can be strongly encouraged since the OIG must determine whether grantee procured audits are independent audits meeting DOL standards.

Mrs. COLLINS. There is another part of that question.

What role will the Department play in the choosing of auditors?

How will the Department determine whether competent auditors have been chosen by prime sponsors?

How will the Department be able to assure that the work done by prime sponsors is of acceptable quality?

Will the Department require a training period for auditors that are new to the CETA system and, in short, how does the Department intend to manage this system so that we can be assured that the audits will fulfill their function as opposed to being a cursory review by a friendly audit firm?

Mr. GOLDSTOCK. I am glad I said I would submit it.

Mrs. COLLINS. Here is a question that I would like to have answered now by either of you.

What mechanism exists to enable Federal agencies to exchange information about contractors who have had problems with federally funded programs?

Mr. GOLDSTOCK. There is none at the present time. However, the IG's as a unit have put together a task force to look at that problem. They will be coming up with a vehicle that will enable different departments to exchange that type of information.

Mrs. COLLINS. It is my understanding that the Office of Administration and Management has recommended that several contracting officers within ETA and the Department be consolidated. Has anything taken place along those lines?

Mr. GREEN. That is a recommendation. I think it is an item that in itself may not lend all of the gains one anticipates just from the consolidation.

Mrs. COLLINS. Will it help?

Mr. GREEN. I am not sure. I think it might hinder.

Mrs. COLLINS. Why?

Mr. GREEN. The missions of the organizations are separate. The review may not necessarily yield the kind of program thrust we want to obtain, and I think it is something we want to review very carefully and not move hastily into simply on the basis of consolidation.

Mrs. COLLINS. Is it possible that a prime sponsor or subgrantee who has historically a record of misappropriating Federal funds is likely to do so with all the agencies from which he gets funds?

Mr. GREEN. I don't know. If you look at different rules that the different agencies operate by, I am not sure. If they have criminally misused funds, certainly I would agree with that.

Mrs. COLLINS. I would like you to give that a little more thought and consideration.

Staff has a question.

Mr. LUMAN. This refers to the independent monitoring units which you mentioned as one of the improvements. The National Academy of Sciences report which you mentioned, found that the degree of independence and the range of activities of the IMU's which are critical factors for success—and I quote from the report—have been a continuous source of confusion.

The Academy also found 90 percent IMU heads were appointed by the CETA administration and in some cases their activity had been limited by those administrations.

How would you characterize the status and the effectiveness of IMU's today?

Mr. GREEN. I think that now the IMU's are in place in every prime sponsor. Their effectiveness has improved tremendously. The statute doesn't specify where the staff is located or to whom they report. It is an item that has not been defined.

Mr. LUMAN. Do you expect to arrive at some resolution of this confusion that the Academy referred to?

Mr. GREEN. I think it would require a change in the CETA statute. It is not something we can do simply through rules and regulations.

Mr. LUMAN. Your feeling is you cannot put out a regulation that says the IMU will be lodged here and report.

Mr. GREEN. No; we couldn't say by regulation that the IMU must be located in the office of the city inspector general, not in the mayor's office or in the economic development administration or in the manpower operation.

Mr. LUMAN. To that degree the IMU can be frustrated by those primes who locate in a position where it doesn't have enough independence?

Mr. GREEN. Clearly, I think it is an issue we are reviewing. We are looking at it. As you know, the IMU's have been in place for less than a year, and we are—as we are with all of the 1978 amendments—reviewing their effectiveness. It is one that it is clear we will have some final determination on but it is too early now.

Mrs. COLLINS. Mr. Butler.

Mr. BUTLER. Thank you, Madam Chairwoman.

At our May hearing—this is turning to another question—the D.C. Institute for Careers and Tourism was discussed. That audit was made in June 1979, and forwarded from the Office of the Inspector General to the ETA on March 20, 1980. We are now told ETA had requested a report from the District on May 23.

Why has it taken so long for the Department to take any action upon this audit? More specifically, what did the Inspector General do with this audit between July 1979 and March 1980?

Mr. GREEN. Congressman, at this time that contract is under investigation by the U.S. attorney for fraud. All of the information has been sealed and referred to Mr. William D. Pease, assistant U.S. attorney. Unless there is a final resolution of the fraud investigation, the Department is not able to take any further action in connection with this issue.

Mr. BUTLER. I am a little surprised at that because that is not the answer we got before.

Mr. GREEN. It is now being investigated by the Attorney General's office. All the information on that is sealed and referred over to the U.S. attorney's office.

Mr. BUTLER. When did they get involved in this?

Mr. GREEN. I don't have a date. I will supply it for the record. But we have been instructed by the U.S. attorney's office to refer all the information and we are at this point not involved in the investigation until the fraud issue is resolved.

Mr. BUTLER. Is that the way you resolve the fraud issue?

Ms. CLAUSS. If we feel there is a possibility of criminal behavior, then it is referred to the Justice Department.

Mr. BUTLER. You put the whole process on hold at that point?

Ms. CLAUSS. The Justice Department, if they are going to a grand jury, almost always insists that we take no further action until a determination on whether or not to proceed criminally has been made. We can supply the exact dates.

Mr. BUTLER. Give me a rough idea within a year or two.

Ms. CLAUSS. It is within a year.

[The information follows:]

DATE THAT THE DOL FILE ON THIS CONTRACT WAS REFERRED TO THE U.S. ATTORNEY

This matter was formally referred to the U.S. Attorney on August 29, 1979.

Mr. BUTLER. Has it been since our last hearing the Department of Justice has gotten involved in this?

Mr. GREEN. Evidently. This is the information I have.

Mr. BUTLER. So as far as the questioning of costs of $127,000 on the D.C. Institute for Careers and Tourism, that whole process is on hold?

Mr. GREEN. It is being approached as a criminal fraud issue, and as the solicitor indicated, the Department has to wait until Justice has completed their investigation and made some determination as to whether they are going to hand down criminal charges.

Mr. BUTLER. We were told ETA had requested a report by May 23. Did it get such a report?

Ms. CLAUSS. Our records have been turned over to the U.S. attorney. Our files are bare. We have nothing. We turned over everything to the U.S. attorney. We will be happy to provide you with a report.

Mr. BUTLER. Are your recollections as bare as your files?

Ms. CLAUSS. I don't think either Mr. Green or I was personally involved.

Mr. BUTLER. We spent a little time on this matter at the last hearing. You asked for a month's extension and I presumed you were preparing your response to that inquiry, and now we have to pull it out of you.

Mr. GREEN. I don't understand the problem. It was indicated that fraud was suspected and we moved now with the authorities that have the ability to bring criminal charges and to put the culprits in jail. This is what I think the committee wants us to do, to pursue with vigor and if we have criminal activity we bring in the people who are able to bring charges so that the people can be put in jail.

I would love to be able to say we move that quickly with everything.

Ms. CLAUSS. This is uniform throughout the country where you have a criminal investigation pending; you do not proceed with civil action because it would involve prior disclosure of Government information and could seriously prejudice any possible criminal prosecution.

Until an indictment is handed down we are always asked to delay any civil proceeding.

Mr. GOLDSTOCK. There are a number of problems we face all the time where you are pursuing both criminal and civil actions at the

same time. There are legal problems associated with that—not only the Department of Justice view that we should hold off but there are methods of discovery, et cetera. So that one type of discovery can't be used one for the other purpose.

On the other hand, when they do have the information they may request us to hold off for a sufficient amount of time in which they can determine whether or not they are going to proceed. In certain cases their determination will be they can proceed even while we go ahead with administrative remedies. But we have to work with them on that.

My understanding is we are at the point where we may be able to get a go-ahead in order to do that.

Mr. BUTLER. What do you propose to do about the $127,000 in questioned costs? Are you going to wait until you get permission from the Justice Department to impose whatever sanctions you can on the District?

Mr. GREEN. Evidently we are having a problem in language. I would like to try to understand. We have transferred all the records on this particular case over to the Justice Department. Once we have been given approval we can continue our investigation, we will move through it, make this determination, and allow the prime sponsor or the subgrantee to respond back. Then it goes through a review.

The grantee and/or the prime sponsor have under the statute ability to appeal it, and if it goes to an administrative law judge that decision will be binding, but those are all laid out in the statute.

Mr. BUTLER. Would you kindly keep us posted on any developments in this area and provide an answer as soon as the Justice Department allows? Madam Chairwoman, would it be appropriate to have them give us a normal statement for adjusting these questioned costs?

Mrs. COLLINS. The time of the gentleman has expired.

As recently as 1 month ago, the Department of Labor stated in its CETA newsletter that the amount of fraud of the CETA system was less than one-half of 1 percent over the past 5 years.

This figure has been used repeatedly by the Department for the past few years as evidence of the minimal abuse of the CETA system. On what data is this figure based?

Mr. GREEN. It is based on a review of our 1977-78 audits that have been completed, attempting to analyze the degree of fraud that exists in those programs. I would indicate, Madam Chairwoman, any amount of fraud in the program is unacceptable and I, along with the rest of the staff, want to work with you to see that is curtailed. We made that from estimates through 1978.

Mrs. COLLINS. You believe that the Department has enough information to conclude that the amount of fraud is merely one-half of 1 percent?

Mr. GREEN. Since 1974 through 1979 I think the total amount of CETA funds outlayed would be somewhere in the neighborhood of $35-plus billion. We have figured the amount of fraud from that base.

Mrs. COLLINS. Mr. Luman.

Mr. LUMAN. Is it true as we outlined in our report making this projection is a little misleading in that the Department never audited the $35 billion? They audited about $6 billion, and of that, of course, they only took samples. Then you had questioned costs, some of which the program people said were allowable, and so you are proceeding on a very minimal base there. It is not based on evaluation of the whole $35 billion.

Mr. GOLDSTOCK. Yes. That is accurate. Prior to this time the audits that were done were not done with a statistically valid sample so we are not able to project fairly. From now on the auditors have been given training in statistical sampling and we will be able to project in the way you suggest in the future.

Mr. LUMAN. You will be projecting.

Mr. GOLDSTOCK. We will be able to; yes.

Mrs. COLLINS. Mr. Butler.

Mr. BUTLER. Thank you, Madam Chairwoman.

Returning now to another question, the District of Columbia agreed to repay $1.3 million because it illegally used CETA funds to hire City Council staff. At the last hearing we learned none of this money had been repaid. The agreement had been renegotiated. According to your submission to the subcommittee, no money ever will be repaid to the Department because the agreement now calls for the District Government merely to spend additional funds on its own manpower program.

It appears the Department has refused to stand up to the District Government. Why doesn't the Department insist on repayment and then give the money to another prime sponsor which can use it in the way intended by the statute?

Mr. GREEN. As you are well aware, I think the needs of the unemployed in the District, the high level of unemployment among citizens in this city is evident and the city is one which the program needs to serve. Of course, as we have outlined, we do have the response back from the District and it was agreed that they would hire an additional 80 people and pay them out of capital budget money. We have a dilemma, of course, in every place that in penalizing inappropriate action by prime sponsors we certainly don't want to penalize the people who need the services.

In this case we attempted to do that. I think the record will show in negotiating with the District, those 80 participants will be paid for out of capital funds, not out of CETA budget funds. As of July 11, 59 of the 80 slots have been filled. The schedule that we have, the agreement now is on track, and we expect it to be kept.

Mr. BUTLER. The unfortunate thing about that is in tolerating an improper use of funds you are punishing the people for which the money was intended and encouraging also the use of the money for an unintended purpose.

Mr. GREEN. If I may, sir——

Mr. BUTLER. If you insist on permitting repayment to be made in this way out of other funds, what are you going to do to insure that the money is hereafter used in an appropriate manner?

Mr. GREEN. The statute allows for payment in kind. We have here those 80 individuals being hired by the District, and an agreement to that effect, and as I indicated as of the first part of July, 59 had been hired.

Whether the District pays us back in cash out of their treasury or agrees to pay for these participants, we still are going to serve additional participants above the number that we disallowed.

It allows the Department and the Secretary to make the determination as to the method of payment. Certainly I think the overriding goal is not to penalize the people who need the services.

Mr. BUTLER. I think we have probably reached an impasse on that. It is just an arrogant use of $1.3 million and they have gotten away with it. The District is being forced to spend money on the unemployed doing what it should have already done. I don't know how we can proceed from that and expect other prime sponsors to comply with the law.

Mr. GREEN. I don't interpret it as allowing the District to get away. Maybe the District is giving us smoke and mirrors about its budget problems but it seems clear to me it has a budget problem. It would take $1.3 million-plus, take it out of their capital funds. This is repayment back for program abuses.

Mr. BUTLER. It seems to me the record will have both our views.

Mrs. COLLINS. Thank you.

That draws to a conclusion our hearing for today, Mr. Secretary, we thank you for coming before us at this time. We will expect to receive all the information within the next 4 weeks, as you promised. Your record so far has been pretty good in supplying us with the information in a timely fashion. We hope you will continue to do that.

This hearing is now adjourned.

[Mr. Green's prepared statement follows:]

STATEMENT OF ERNEST G. GREEN
ASSISTANT SECRETARY FOR
EMPLOYMENT AND TRAINING
U.S. DEPARTMENT OF LABOR
BEFORE THE
SUBCOMMITTEE ON MANPOWER AND HOUSING
OF THE
GOVERNMENT OPERATIONS COMMITTEE
U.S. HOUSE OF REPRESENTATIVES

July 23, 1980

Madam Chairwoman and Members of the Subcommittee:

I appreciate this opportunity to appear before you to discuss the Subcommittee's concerns about the administration of the Comprehensive Employment and Training Act (CETA).

I would like to begin by making a general statement about the CETA program, in order to place today's discussion in perspective. As you know, CETA is the principal vehicle for providing employment and training assistance to low-income, unemployed Americans, many of whom would not be able to obtain employment without this form of assistance. The program is a large one -- in FY 1979, over 4 million persons participated in CETA throughout the United States. The vast majority of these participants were unemployed at the time of entry into CETA and nearly 90 percent of those enrolled in the

decentralized local programs in FY 1979 were economically disadvantaged. Black and other minorities account for almost one-half of the enrollment in CETA. Nearly 1.3 million black persons were served in FY 1979, as were over half a million Hispanics. Over 180,000 of the persons served were handicapped.

For some groups CETA provides a major source of jobs. For example, about 22 percent of all black teenagers employed in October 1978 were working in CETA programs, and employment in the work components of CETA youth programs in December 1979 accounted for one-fourth of the measured employment growth of all teenagers since December 1977, and virtually all of the growth for black teenagers -- the only gains for black teenage males in the 1970s.

Participation in CETA has helped former participants both in terms of obtaining jobs and further training, and in increasing their earnings. For example, of those persons terminating from titles II and VI programs in FY 1979, almost two-thirds had positive outcomes, either obtaining employment (39 percent) or by receiving additional training or schooling (27 percent).

While CETA has been successful in providing jobs and training to millions, at the same time it has undeniably had its problems. Largely, these are attributable to the difficult economic circumstances it has had to operate under and the rapid growth in size and complexity of the program. When enacted in 1973, CETA was small and simple compared with the program today. Since that time CETA has been frequently amended, giving the system new missions and increasing its size. For example, with the addition of a large countercyclical program in 1974, CETA was asked to respond to a major recession before the system had really had a chance to get fully underway. In 1977 the CETA system was utilized to carry out a major part of the economic stimulus program, which included more than doubling the size of the public service employment programs. A major new youth initiative was also added in 1977. Most recently, in 1978, a major revamping of CETA took place, with new provisions to (1) more sharply target services on those most in need of assistance; (2) strengthen connections with the private sector; (3) improve program management and accountability; and (4) control fraud and abuse.

While these major changes were taking place in the CETA legislation, the program was growing in terms of program funding, the number of persons served by the programs, and its administrative complexity. In FY 1975, the first full year of operation of CETA, $3.1 billion was spent on CETA programs. By FY 1979, this figure had increased more than three-fold. Correspondingly, the number of enrollments grew dramatically. Two indications of the increasing complexity of the program are seen in the number of CETA programs prime sponsors must administer, and the tremendous growth in the number of subcontractors, to where we now estimate there are over 50,000.

We believe that prime sponsors have responded quite well to these changes and that overall CETA can be considered a success. We do not agree with characterizations of the program as being rife with fraud, abuse and mismanagement, although there are instances where each of these has occurred. In the vast majority of jurisdictions, CETA programs have been run honestly and efficiently. And we believe that over time these programs have become more effective in carrying out

their objectives -- particularly since the CETA reauthorization of 1978. In part, this is due to amendments proposed by members of this Subcommittee, which have trengthened the management of the CETA program. Our considerable efforts to improve program management and accountability in CETA by upgrading both the administrative capabilities of prime sponsors and our own monitoring and oversight functions have been detailed to the Committee, both in our response to the Committee's report on the Department of Labor's administration of the CETA program and at previous hearings.

Most of the provisions of the reauthorization have now been implemented and first assessments of their effects are becoming available. Several months ago, an assessment of the new CETA was issued by the National Academy of Sciences. While the NAS report was critical of some aspects of the new CETA program, it found, and I quote,

> Early indications . . . that the overriding objective of CETA -- to serve more fully those whose needs are greatest -- is being achieved. Additionally, wages are lower; the tenure of PSE participants is being shortened; more emphasis is being placed on the transition of enrollees into regular jobs;

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and prime sponsors are administering programs with a greater concern for accountability. There is also some basis for believing that the incentives for substituting federal funds for local revenues are weaker.

Now I would like to turn to the specific issues raised in your letter of invitation. First, you ask for an assessment of the Department's power to hold prime sponsors accountable for their expenditure of CETA funds and an assessment of its exercise of these powers.

As you know, CETA provides in section 106(d)(1) that if the Department concludes that any recipient of funds under the Act is failing to comply with any provisions of the Act or the regulations under the Act, or that the recipient has not taken appropriate action against its subcontractors, subgrantees, and other recipients, the Department has authority to terminate or suspend financial assistance in whole or in part and to order such sanctions or corrective actions as are appropriate. These include the repayment of misspent funds from sources other than funds under the Act and, if necessary, the withholding of future funding. The Act further provides that the Department has authority to take whatever action is necessary

to enforce any orders issued, including action directly against subgrantees or subcontractors, and to order the primary recipient to take legal action to reclaim misspent funds or to otherwise protect the integrity of CETA funds and ensure the proper operation of CETA programs.

The Department believes that this language, as well as other provisions contained in the Act, provides an adequate basis for holding prime sponsors accountable for their expenditure of CETA funds. We also believe that we have exercised this authority in a proper and effective manner, through:

-- establishing a monitoring and assessment system designed to assure that program operations are carried out as required by the Act;

-- requiring corrective actions where problems have been identified;

-- disallowing expenditures which are not in accordance with the Act, regulations or approved plan;

-- requiring the repayment of disallowed costs either in cash or through the provision of appropriate services; and

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-- terminating or refusing to grant prime sponsorships where a local jurisdiction does not or cannot effectively operate CETA programs.

In addition, for the past 2 years, the Department has also carried out a very aggressive reallocation policy. This policy is designed to assure that prime sponsors effectively utilize available funds in accordance with their approved plans. It includes the reallocation of underutilized funds during the fiscal year and the reallocation of excess funds carried forward from 1 year to the next at the end of each fiscal year (which amounted to over half a billion dollars in FY 1980).

Also, the Department will shortly implement new procedures calling for required actions and sanctions where prime sponsors continually receive poor ratings during the annual assessment process. Such sanctions could include the loss of prime sponsor designation.

We believe that these actions constitute an appropriate exercise of the Department's authority to assure effective program operations. While the number of instances of application of specific sanctions may not be large in relation to the size of the program,

the importance of having specific procedures cannot be underestimated. Simply having the procedures in place removes any doubts about the process and thus serves to discourage prime sponsors from not taking action against their subgrantees. Moreover, the specific instances where the Department has invoked sanctions against prime sponsors serve as deterrents since they demonstrate the Department's willingness to take action. Finally, I would like to point out that the Department frequently reviews its procedures for holding prime sponsors accountable, with a view to improving those procedures whenever possible.

The second topic in your letter of invitation concerns the audit situation in the District of Columbia.

On June 25, 1980, the District issued a Request for Proposal (RFP) for audit of the District's CETA subgrantees and contractors. We will continue to monitor the District's actions to ensure that prompt action is taken to award contracts and begin audits.

The third topic concerns the implementation of Congressman Maguire's Amendment on the allowance of attorney fees under CETA.

We realize that some confusion may have existed as to whether legal expenses paid by CETA recipients are allowable expenses under the law.

Section 123(f)(2) of the Act prohibits pre-approval of attorneys by the Secretary of Labor and does not allow payment of legal expenses unless the prime sponsor certifies that --

(A) the payments are not unreasonable in relation to the fees charged by other contractors providing similar services; and

(B) the services could not be competently provided through employees of the prime sponsor.

The Secretary has written a regulation implementing section 123(f)(2) of the Act at 20 CFR §676.40-2(b). The regulation prohibits the expenditure of CETA funds for otherwise allowable legal fees unless the prime sponsor certifies that the fees are reasonable and legal services could not be competently provided through its own employees, or State and local legal officers. Legal fees are further limited by the Federal Procurement Regulations, 41 CFR §1-15.711-16, which provide that

only legal expenses necessary for administration of the grant, including settlement of the grant, are allowable. Expenses of litigation of a claim against the Government are not allowable.

Your fourth topic, the Department's actions in relation to American Training Services, Inc., was addressed at the May 21 hearing.

This topic was also the subject of a hearing of this Subcommittee in September 1978. Since that time, the ATS Contract with the Hudson County, New Jersey, prime sponsor has been audited by a public accounting firm. However, we are not completely satisfied with the thoroughness of the audit and the Department is now undertaking an audit of the ATS Contract.

With regard to the ATS Contract in Atlantic County, New Jersey, a final determination disallowing $180,000 was issued, the prime sponsor appealed the decision to an Administrative Law Judge and an initial hearing has been set for September 23, 1980. ATS has some limited activity in Region II and we are in the process of examining the costs and performance under these contracts.

The fifth topic concerns the Department's record in auditing prime sponsors. As you know, this responsibility falls within the jursidiction of the Office of the Inspector General. The Department believes it has made considerable progress in increasing both qualitatively and quantitatively its audit coverage of CETA prime sponsors. In general, our audit plan for fiscal 1981 provides for a more comprehensive audit coverage than currently exists. Of the 473 CETA prime sponsors, 287 are included in our fiscal year 1981 work plan. These audits will be completed either by OIG auditors, CPAs under contract with the OIG, State and local auditors under contract with the OIG, or by auditors under contract with prime sponsors. The later, grantee procured audits, are authorized by OMB Circular A-102 and recent CETA regulations. We also believe it is significant to note that the OIG, in its current year's work plan, provides for audit coverage of each CETA prime sponsor which has not been previously audited.

Your sixth topic concerns procedures for assuring that subcontractors are audited. I would like to make several points with respect to this issue. First,

under CETA, prime sponsors have responsibility for managing subcontractors and for ensuring that the CETA law and regulations are carried out. Second, prime sponsors are required to schedule audits of a sample of subcontractors on a regular basis. The Department reviews this audit process to ensure that such audits are carried out and that any problems identified are in fact corrected. Third, improving subgrant management is a major goal of the Department. Through an extensive program of training and technical assistance, we are upgrading subgrant management. Finally, the implementation of unified audits, covering both a prime sponsor and a sample of its subrecipients, will strengthen the auditing of subcontractors and subgrantees.

The final topic in your letter of invitation concerns how national program contractors are selected, monitored and evaluated. National programs include programs for Indians and other Native Americans, migrant and seasonal farmworkers, and programs funded out of the Secretary's discretionary account that mainly target on groups with particular disadvantages in the labor market. Offenders, persons with limited English-speaking ability and older workers are examples of such groups.

Research and demonstration programs are also funded by the National Office.

Funding for Indian and other Native American programs is provided through formula grants. For migrant and seasonal farmworker programs, the Department uses formal competitive procedures to award basic program grants to eligible nonprofit organizations and public agencies. Other national program contractors are selected by several methods, depending on particular needs and circumstances. These include (1) contracts awarded pursuant to section 8(a) of the Small Business Act, (2) competitive negotiated procurements with set-asides for small business firms, (3) competitive negotiated procurements utilizing RFP announcements in the Commerce Business Daily; and (4) sole source procurements, which are used to provide continued support for programs of demonstrated effectiveness and for specific efforts requiring highly specialized experience or a unique capability.

Monitoring of national programs is carried out by National Office staff (primarily project officers) and some staff based in regional offices, to determine that a particular grant or contract is being performed

as written, and that expenses incurred are justified. This is done by careful review and analysis of progress re orts submitted at regular intervals by the contractor/ grantee, review of flow chart schedules and financial statements versus actual performance, on site visits and correspondence. Within ETA, the Office of Program Evaluation has responsibility for carrying out evaluations of all CETA programs.

Madam Chairwoman, this concludes my prepared statement. My colleagues and I would be pleased to answer any questions that you and other members of the Subcommittee may have.

[Whereupon, at 12:25 p.m., the subcommittee adjourned, to reconvene subject to the call of the Chair.]

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APPENDIXES

APPENDIX 1.—DEPARTMENT OF LABOR RESPONSES TO FINDINGS AND RECOMMENDATIONS IN GOVERNMENT OPERATIONS COMMITTEE REPORT ENTITLED "DEPARTMENT OF LABOR'S ADMINISTRATION OF THE COMPREHENSIVE EMPLOYMENT AND TRAINING ACT"

U. S. DEPARTMENT OF LABOR
OFFICE OF THE SECRETARY
WASHINGTON

RECEIVED
MAY 15 1980

Honorable Cardiss Collins
Chairwoman, Manpower and Housing Subcommittee
Committee on Government Operations
House of Representatives
Washington, D. C. 20515

Dear Chairwoman Collins:

We have carefully reviewed the Committee on Government Operations' Tenth Report, "Department of Labor's Administration of the Comprehensive Employment and Training Act."

The Department feels that the Government Operations Committee, on the whole, did an excellent job on a difficult subject. We agree with most of the observations and recommendations contained in the report and we are currently initiating steps to develop and refine the techniques used at the Federal, State and local levels to better manage Comprehensive Employment and Training Act (CETA) programs.

Enclosed are specific responses to the recommendations contained in the report. We have also commented on specific findings in the report which we feel are of special importance.

Sincerely,

Ray Marshall

Secretary of Labor

Enclosure

DOL Responses to Findings and Recommendations in Government Operations Committee Report - "Department of Labor's Administration of the Comprehensive Employment and Training Act"

The stated focus of the Government Operations Committee's Tooth Report was to review how the Department of Labor (DOL) oversees the activities of CETA prime sponsors. In particular, the committee was concerned how the Department balances the dual approaches encompassed in the CETA legislation for Federal oversight and local control. On the whole, the committee's findings indicated that the Department has placed its emphasis on the grant-making functions of the CETA system and has not emphasized or placed priority on the management processes for the monitoring and accounting of the Federal funds. The report concludes on Page 31 that the Employment and Training Administration (ETA) must strike a new balance in its administration of the management processes necessary for a stronger Federal oversight role of local prime sponsor operations.

The Department concurs with this conclusion and, as will be described below, has initiated a number of measures to develop and refine techniques to improve the capabilities of both the Federal and local governments to carry out their program and management responsibilities.

Specifically this means for the Federal managers:

a. finding a better way to establish realistic program priorities and objectives. We have discussed efforts the Department is undertaking to better define, manage and track program priorities and objectives in our response to recommendation 1.a.

b. ensuring that these priorities and objectives are communicated to the system. The Department's plans with respect to improving its communication system are also discussed in our response to recommendation 1.a.

c. defining measures to assess accomplishments. The Department implemented a performance indicators system in Fiscal Year 1977 in order to define and assess accomplishments. The 1978 reauthorization required the Department to establish performance standards for CETA programs. The Department's plans with respect to the development and implementation of these performance standards are discussed in our response to recommendation 1.a.

d. improving the technical assistance capacity. This has also been a high priority item for the Department. Major efforts, such as the development of Regional Training Centers (RTCs), have been made to assist the prime sponsors in operating effective programs. With the establishment of the Office of Management Assistance (OMA), as required by the 1978 reauthorized Act, the Department anticipates a significant increase in the level of technical assistance provided to prime sponsors. This is discussed in our response to recommendation 1.c.

e. training professional staff. The Department is now in the process of implementing a new Office of Management Assistance. This new office will take the lead in arranging for the training of staff, both Federal and prime sponsor. The duties and responsibilities of this new office are discussed in our response to recommendation number 2.

f. improving management processes. Major efforts have been and are continuing to be undertaken by the Department to improve the management processes. This is especially true with respect to planning, technical assistance and training, performance standards, auditing, grant review and funding instructions, reporting requirements and review and assessment systems. The Department also recognizes the need to provide both performance standards for program operations and technical assistance to prime sponsors to enable them to achieve these standards.

An important example of the Department's commitment to improved management and oversight responsibilities is its 5-year plan for prime sponsor management information systems (MIS's). The Department will shortly issue minimum standards for prime sponsor MIS's which reflect the increased data requirements imposed by the 1978 amendments and which set minimum levels for accuracy and validity of prime sponsor reports. During Fiscal Year 1980, all prime sponsor MIS's will be reviewed against these standards. Those which meet the standards will be certified, while corrective action plans and technical assistance will be developed for those

which do not. The Department has already reviewed and documented existing prime sponsor MIS's which operate effectively and are currently providing information on these model systems to prime sponsors. These improved systems will provide better information to monitor and evaluate program performance.

g. reducing inefficiencies in workload requirements. The Department shares prime sponsor concern about the increased paperwork resulting from the 1978 amendments. That increased paperwork places an equal burden on Federal staff. Importantly, coping with that paperwork claims Federal staff time from our more important monitoring and technical assistance functions. The Department is currently reviewing reporting and other work-generating processes at the Regional Office and prime sponsor level and plans to develop, where appropriate and possible, administrative changes based on the results of the review. Further, the Department may be recommending legislative changes to Congress based on these reviews. The Department has entered into a contract with the National Archives to review these problems and to develop recommendations, where appropriate. This is discussed in our response to recommendation number 4.

At the local level this means:

a. providing better techniques to identify local needs within rational priorities. This means working to find better ways of identifying the eligible population, creating employment and training opportunities which will better serve the eligible population and which will lead to permanent appropriate unsubsidized employment.

b. staff development. This means providing training and opportunities which will increase the effectiveness of staff in their current positions and also provide them with the skills necessary for advancing to higher and more challenging positions.

c. more effective self-monitoring. This means establishing an effective independent monitoring unit and a procedure for following up internally to assure that problems identified by the unit are in fact corrected.

d. more attention to program outcomes. This means that prime sponsors must recognize the goals of CETA and strive to operate programs in a manner which will result in more positive outcomes for the participants. It means concentrating on results.

In line with this overall summary of the Department's efforts to improve the management and operation of the CETA system, below are the Department's responses to the committee's recommendations.

Recommendation No. 1.

The Department should make a major effort to increase the effectiveness of its oversight of CETA money. This effort should include: (a) more refined evaluations of prime sponsors, reducing dependence on questionable statistical indications in favor of assessments that determine how well programs are achieving objectives, accompanied by departmental willingness to support its own officials when they determine that certain programs are not operating effectively or are unlikely to result in positive changes; (b) greater use of incentives for better performance, including discretionary awards to exemplary programs; (c) more responsiveness to prime sponsor requests for information and assistance; (d) demanding specificity in prime sponsor annual plans and emphasizing annual evaluations, which appear to be potentially the most effective of the present series of reports; and, (e) recognition of pressures that are placed on prime sponsors and provision of a counterweight by indicating its determination to demand effective performance by prime sponsors and to take vigorous action if this performance is not forthcoming.

The Department recognizes the validity of these recommendations. In fact, we have already initiated actions which reflect the Department's commitment to working with prime sponsors in improving program management and performance.

Following are responses to the specific recommendations referred to above.

a. more refined evaluations of prime sponsors, reducing dependence on questionable statistical indications in favor of assessments that determine how all programs are achieving objectives, accompanied by departmental willingness to support its own officials when they determine that certain programs are not operating effectively or are unlikely to result in positive changes.

RESPONSE. The Department is in the process of developing systems which will achieve the purpose of the above recommendations. One of the major undertakings is the establishment of a unified management system for ETA. The system will unify all elements of the present planning, budgeting and review systems to improve agency efficiency, accountability, and effectiveness.

To accomplish this task, the goals and objectives setting process will be expanded and will serve as a driving force behind all other systems. Objectives will be set for 2 years in the future to serve as the framework for making budgetary decisions. One year objectives will serve as the framework for developing annual work plans, grant instructions, and performance appraisals. Indicators and measures of performance will be developed to test accomplishments.

All operational planning documents, including annual work plans, grantee planning guidelines, and performance appraisals will be built around major goals and objectives. The performance indicators used in goals and objectives will be carried over to the operational planning documents. Systems to review agency performance will be consolidated. Reviews will focus on accomplishment of goals and objectives as well as overall program performance.

The unified management system will define goals and objectives more clearly and consistently, thus permitting better communication with prime sponsors about priorities and performance.

Rational performance requirements, including performance standards, can be constructed on the basis of the major goals and objectives. Prime sponsors will then be able to define their own objectives, taking into account local conditions and clientele, within the established parameters. The Department is now in the process of implementing a long-term program aimed at developing appropriate performance standards which will be consistent with the requirements and the goals of the revised legislation. This process will involve a wide variety of interested parties, including prime sponsor staff, congressional staff and outside experts. We will continue to include and update existing performance standards through the use of the annual grant review guidelines during the development of the more permanent standards. Review mechanisms will be able to focus better on achievement of objectives, thus reducing emphasis on process as opposed to outcomes. The Department will be in a firmer position to deal with instances where programs are not achieving objectives.

Along with a system for clearly identifying goals and objectives, it is equally important that there exist a system for clearly communicating such goals and objectives in a timely manner. As a result, OMA is now in the process of reviewing the ETA formal system of communication. It is developing a revised process which will disseminate information clearly, concisely and timely. Finally, it will provide for a differentiation as to the relative importance of various communications.

By implementing this system, the Department feels that the entire CETA system will respond more quickly and in a more positive way to the established goals and objectives.

With respect to the willingness of the Department to support officials where programs are found to be operating ineffectively, the Department is committed to taking whatever action may be necessary to assure effective program operations. The fact that only one prime sponsor has been terminated is not the only criterion by which the Department should be judged in determining its willingness to deal with ineffective programs. Just as important, in our opinion, is our monitoring, assessment, reallocation and corrective action systems, and our training of staff to assure that they know and understand their responsibilities. Through the year-round monitoring and the annual assessment processes, the Department identifies areas in which CETA programs are not functioning as called for by the Act, the rules and regulations or the annual plan. Working with the prime sponsors, the Department develops corrective action plans to resolve the identified problems. Where necessary, the Department provides appropriate technical assistance either directly or through contract. In cases where the corrective actions do not resolve the problems or at least all of the problems, the Department can and does take steps to reallocate funds which are not being effectively utilized. Short of termination, the Department has in several instances used Federal staff to take over the direct operation of problem programs. The Department feels that actions designed to identify and correct ineffective programs are, in the long run, a more positive way of managing the system than by moving directly to terminating such prime sponsors.

As a result of the use of the above systems, in Fiscal Year 1979 some $23,563 thousand in Title II-D and $18,021 thousand in Title VI funds were reallocated where the Department determined that such funds were not being effectively utilized. In addition, over 700 separate corrective action plans were developed and implemented.

b. greater use of incentives for better performance, including award to exemplary programs.

RESPONSE. The Department is in the process of developing a system for recognizing exemplary programs. The Department feels that such a system is appropriate; however, the Department also feels that it is necessary to assure that recognition granted relates to specific achievements. In this respect we intend to develop a system which will provide recognition for specific activities. The specific form for recognition is still under study. Consideration is being given to different types of recognition ranging from letters of commendation to special consideration for discretionary funds, depending on the significance of the achievement.

c. more responsiveness to prime sponsor requests for information and assistance.

RESPONSE. The Department is sensitive to this issue. Every attempt is made to quickly and adequately respond to such requests. We anticipate that the changes being made with respect to the responsibilities of Field Representatives, discussed in response to recommendation number 4, will increase significantly the Department's ability to respond to this issue.

In addition, the Department has recently established the OMA, as required by Section 135 of CETA, as amended in 1978. The goal of this office is to organize the available management assistance and training resources into a coordinated network to better meet the needs of all ETA grantees. It is intended that the new system will: (1) build up training and technical assistance capacity throughout the employment and training community; (2) involve greater participation by grantees in planning, delivering and evaluating training and technical assistance; (3) clearly spell out roles for all deliverers; (4) increase management capacity within the system; (5) be responsive in terms of timeliness and quality; and (6) result in improved performance. It is the perspective of the Department that if the users of the system do not feel that it is effective and successful, then it will have failed.

It is also anticipated that the new system will better link training and management assistance efforts. These efforts can have a greater impact if the training (aimed at building individual skills) is linked with onsite management assistance (aimed at improving systems and organizations).

Within the area of management assistance, the goals of the Management Assistance and Training System (MATS) is to create a network of resources, inside and outside ETA, capable of providing timely and effective management assistance based on requests or identified needs. The new system should be able to provide (1) short term onsite problem-solving assistance; (2) longer-term in-depth assistance to resolve major problems; and (3) assistance aimed at improving satisfactory performance ("building a better mousetrap"). The goal of improving grantee agency capability is critical in light of the fact that ETA does not have sufficient resources internally to provide all the potentially necessary technical assistance for its many programs.

Within the area of training, the goals of the MATS are: (1) to develop a competency-based training program, the major emphasis of which is to upgrade staff capability at all levels of the employment and training system; (2) to establish a system in which training can be delivered at the lowest possible

organizational level; (3) to establish a coordinated training network with national, Regional, State, and local components; and (4) for the ETA National Office to serve as a communication link among these components.

d. demanding specificity in prime sponsor annual plans and emphasizing annual evaluations, which appear to be potentially the more effective of the present series of reports.

RESPONSE. The Department feels that the specific requirements contained in the reauthorized legislation provide for adequate specificity in the annual plans. At the same time we are constantly reviewing the regulatory requirements which implemented the statutory language against the problems which are identified in order to determine where and if there should be changes in the annual plan requirements. In particular, we are concerned that the plans adequately reflect the realities of the local employment and training situation and will effectively address the needs of the local eligible population. This also requires the development by the prime sponsors of work plans which clearly define objectives and priorities. In addition, we have taken steps to increase planning and development time by starting the annual process as early as possible. Preapplications for prime sponsorship are now due by February 15, compared with May 1 a year ago.

The Department agrees that the annual plan approval process is a key to successful program operation. The CETA amendments of 1978 now require the Secretary to issue all planning requirements by May 15 of the preceeding fiscal year so that prime sponsors may have enough time to plan programs. The Department met this commitment for Fiscal Year 1980, a considerable achievement in the face of the substantial changes required by the 1978 amendments. It plans to issue these requirements even earlier for the Fiscal Year 1981 planning process.

The report also correctly points out the myriad demands upon the Federal Representative, one of which is the review and negotiation of approvable annual plans. Thus, the Department has developed annual plan review guidelines, including indicators of successful program performance, for use by Regional Offices in the annual plan review and approval process. Regional Offices also use these guidelines in reviewing subsequent modifications to the annual plans. This also relates to the responsibilities of the Federal Representatives which are discussed in our response to recommendation number 4.

Further, the Department, in reviewing annual plans, may approve such plans on a conditional basis, either in whole or in part until prime sponsors have completed corrective actions required as a part of the annual assessment process as discussed above in our response to recommendation number 1.a.

However, while Regional Offices do often approve annual plans conditionally or in part, until they conform with the law, the regulations and other Federal requirements, it is important to remember the Department's strong commitment to the people served by the CETA program. Since programs often span fiscal years, withholding funds may disrupt or halt services and training provided to program participants. The Department seeks to balance the review of annual plans, which must meet many technical requirements as well as provide a blueprint for program operations, with the need to minimize the disruption of services for over a million program participants.

Regarding assessments, during the past 3 fiscal years the Department has conducted an annual assessment of prime sponsor operations. The assessment process has been refined each year and, as such, is a continuously improving tool for determining the effectiveness of CETA operations. While the assessment does rely, to a certain extent, upon statistical data, it basically requires an in-depth look at the quality and effectiveness of actual operations. The evolution of the assessment process was interrupted in Fiscal Year 1979 when the assessment guide was revised to concentrate primarily on the prime sponsor's efforts to implement the requirements of the 1978 reauthorization. The Fiscal Year 1980 guide (copy attached) places heavy emphasis on program operations and will provide the best indication to date of the success of the prime sponsor in carrying out programs which achieve the objectives of the Act. This guide is also a major step toward stability in the assessment process. It was developed with the assistance of prime sponsor staff and the Department feels that the guide substantially unchanged will be used in the future.

In addition to this assessment, the Department will continue to conduct its year-round compliance monitoring of prime sponsor programs, as well as periodic special reviews and evaluations. Further plans call for combining the monitoring and assessment system into a single process which will basically result in a year-round assessment.

e. <u>recognition of pressures that are placed on prime sponsors and provision of a counterweight by indicating its determination to demand performance by prime sponsors and to the vigorous action if this performance is not forthcoming</u>.

RESPONSE. The Department is fully aware of the pressures that are placed on prime sponsors. The changes required by the new legislation such as the new eligibility determination and verification system, the independent monitoring unit, the tracking of the maximum periods of participation, the new controls on fraud and abuse, the changes in the management information systems, the changes in eligibility requirements, and the restructuring of Titles II-D and VI have greatly increased the already significant pressures under which the CETA system operates. These are all in addition to ongoing pressures which include the annual planning required in order to have in place effective programs, the effective use of available funds, the impact of uncertainty regarding the availability of funds due to late appropriations and of significant changes in funding levels and most important the need to continually develop appropriate employment opportunities for CETA participants.

In recognition of these pressures, the Department is constantly searching for ways to ease prime sponsor burdens and to eliminate superfluous tasks. The implementation of the open-ended nonfinancial agreement system is an example of these efforts. This system was incorporated into the revised legislation as the master and annual plans. The Department has also developed program models and a functional management information system to assist prime sponsors in meeting the new reporting requirements. It has provided a guide on tracking maximum participation periods and rendered extensive assistance in the establishment of independent monitoring units (IMUs). In addition, guidance has been provided with respect to a proper eligibility determination and verification system. The guidance describes what information must be obtained and the minimal verification actions which must be taken in assuring eligibility.

At the same time the Department has made clear its determination to demand effective performance by prime sponsors. In this respect, it is the intent of the Department to place a greater emphasis on program outcomes. The emphasis will be consistent with the purpose of the Act which called for an increase in earned monies for CETA participants. This focus will be reflected in performance standards which the Department is now in the process of developing and which are discussed in our response to recommendation 1.a.

On Page 6 of the report, the committee states that "attempts to assure that local programs meet the requirements of the legislation have been seriously crippled by the tremendous number of changes in program structure." The Department concurs with this statement. However, it is important to note that most of the major changes resulted from requirements in the new legislation. To implement these changes, the Department undertook an extensive rewrite of the CETA regulations. During this

process, the Department solicited input from prime sponsor staff, congressional staff, the public interest groups, as well as Department staff. Careful consideration was given to every change and especially to the impact that the changes would have on prime sponsor workload. As a result of this effort, we are confident that the system will be able to operate for the forseeable future under the existing requirements.

To deal with this vital issue, the Department is determined to keep changes to a minimum. This includes a minimal annual rewriting of the regulations. Where necessary, the Department will issue clarifications rather than totally rewriting procedures. The goal will be to make the existing rules and regulations work rather than constantly changing such rules and regulations. By dealing with issues in this manner, we are sure that we can bring a certain stability to the system.

Recommendation No. 2.

The Department of Labor should significantly increase its efforts to compile and widely distribute examples of successful programs. The continuing attempt to close regulatory loopholes by field memoranda to prime sponsors should be matched by an equally vigorous effort to advise prime sponsors of how particular challenges have been met by other prime sponsors throughout the country. Whenever it determines that a certain approach has not worked despite numerous attempts, DOL should refuse to support proposals for using such discredited approaches.

RESPONSE. The Department places such high priority on the provision of technical assistance to prime sponsors that it is completely reorganizing its technical assistance system, now centered in the newly-established OMA.

In Fiscal Year 1979, a task force surveyed National Office, Regional Office and prime sponsor and State Employment Security Agency staffs to determine the problems and status of our technical assistance system. As a result, the Department has embarked on a long-term effort to establish a national technical assistance and training system which will provide for greater information exchange and more technical assistance tailored to specific prime sponsor needs.

The new OMA will manage this system at the national level, including the coordinating of National Office technical assistance efforts, compilation of resources, development of training and dissemination of information. We are presently in the process of reorganizing our Regions to make them more responsive to the needs of our sponsors. The Management Assistance staff in Regional Offices will draw upon these resources, which will include prime sponsor-to-prime sponsor assistance, universities and public interest groups, as well as DOL materials, and will coordinate and provide technical assistance at the prime sponsor level.

In addition, the Department will be convening a work group to develop a broad 5-year MATS plan as well as a specific plan for Fiscal Year 1981. The goal of the quick paced implementation plan is to have the rudiments of the new system in place in time to develop a MATS delivery plan for Fiscal Year 1981.

In addition, the Department will engage in capacity-building at the National Office, Regional Office and prime sponsor level. Training in the program management and operation will be provided to improve the skills of individuals throughout the employment and training system.

Emphasis within ETA is to build our staff to be able to better do their jobs. Two such efforts are training for our grant officers and our Federal Representatives. For the last several months, the direction was to provide training for the grant officers who are the key Department officials that sign the grants and are legally responsible for the use of these Federal funds. At the same time, work is proceeding ahead on developing training for our Federal Representatives.

Another method the Department has used to notify prime sponsors of changes and innovative systems is through ongoing training and technical assistance efforts. RTCs are the focus for these activities, which in Fiscal Year 1979 included extensive training in the 1978 amendments, especially key areas as the IMU and the new eligibility criteria.

ETA also has a clearinghouse for the purpose of cateloguing and exchanging information. Course materials are made available to all grantees. This system eliminates the need for one grantee to reinvent a course which has been previously constructed by another grantee or Federal staff. Materials are maintained in key areas such as financial management, program design and management information systems. In addition to the National center, each of the 10 Regions has a limited capability to provide such information in hard copy format or to retrieve information maintained at the national level.

The Department's Private Sector Initiative Program has also established a clearinghouse which is operated by the National Alliance of Business (NAB). It is a centralized resource for information on all aspects of private sector initiatives. Information is available to Private Industry Councils, business organizations, employers, unions and labor groups, educators, community organizations, trade associations, and others involved in private sector initiative programs or activities. In addition, the clearinghouse publishes a monthly newsletter

entitled Showcase which features model employment and training programs, profiles of companies, case studies, sources of free information, and other news of interest to business and industry as well as public entities.

Recommendation No. 3.

The Department should request and allocate sufficient monies to permit timely audits of prime sponsors at least biannually. It should tighten its review of prime sponsor audits of subgrantees. Audit findings should be resolved promptly and actions taken to determine why program managers allow a high percentage of questioned costs. The Department should take a tougher, more aggressive stance in collecting disallowed costs. Appeals of audit decisions should be heard without inordinate delay.

RESPONSE. The Department recognizes that there have been problems in the CETA audit program and agrees that improvements are in order.

The Office of the Inspector General (OIG), which was created in October 1978 with the passage of the Inspector General Act of 1978, PL 95-452, has a major goal of reduction of waste, fraud and abuse in the CETA program. The OIG is now undertaking a series of initiatives to improve its ability to effectively audit the CETA program. The OIG is also enhancing its capabilities to investigate allegations of fraud and abuse in the CETA system and to initiate analytic studies of systemic weaknesses in DOL programs, including CETA.

The committee made a number of findings and recommendations pertaining to the OIG's CETA audit effort. Before commenting on specific findings and recommendations, the Department wishes to stress the importance of avoiding misleading data. Our major concern has to do with comparing DOL audit coverage with CETA appropriations. The report states that "Since CETA began, more than $34 billion has been pumped out to prime sponsors by the Department of Labor. However, only $5.8 billion or 17 percent of this amount has been audited by the Department." Even though CETA was enacted in December 1973, DOL did not begin to audit CETA prime sponsors until Fiscal Year 1976 because of the needs to audit the closeout of Manpower Development and Training Act funds, to conduct preaward surveys of potential CETA grantees, and to develop an audit program which would cover all funds, including funds expended at the subgrantee level. There also is a necessary time lag between DOL's obligation of funds and completion of a final audit report. Thus, it is misleading to compare all CETA funding to date with DOL audit activity covering only a portion of this time period.

Nonetheless, the committee finding that the Department has not been able to audit prime sponsors on a 2-year cycle is true. The 1980 funding for the OIG was originally considered sufficient to permit audits of prime sponsors on a 2-year cycle. It is too early to tell whether the additional resources will, in fact, fully eliminate delays in auditing prime sponsors. Also, the Inspector General has prepared an assessment of the resources necessary to fulfill obligations to audit CETA recipients other than prime sponsors (i.e., Indian, Migrant, Job Corps, and other National Program recipients).

One initiative that is being undertaken by the OIG during Fiscal Year 1980 is the establishment of audit residencies in 17 of the more complex prime sponsors. These residencies will provide continuous audit coverage of these prime sponsors. The residencies will permit more extensive reviews of financial operations at these sites and better monitoring of audits of subgrantees.

A second finding was that Department of Labor audits stop at the prime sponsor level. Pursuant to 29 CFR 70.270-3, prime sponsors are responsible for auditing their subgrantees. However, the Department does have a responsibility to review audits of CETA subgrantees. The OIG currently has a quality control program under which subgrantee audit reports are reviewed; however, given resource limitations, onsite and workpaper reviews by OIG of the audits of the majority of subgrantees have not been performed. As more audit residencies and unified audits are undertaken, the problem will diminish somewhat because OIG will assume greater control over the audits of subgrantees.

An initiative of the OIG designed to generate a comprehensive audit assessment of a prime sponsor and its subgrantees is the unified audit, which has been implemented on a selective basis. A unified audit is one where the DOL audit of the prime and the prime's audit of its subgrantees are conducted simultaneously. The audit of subgrantees will be performed either by or under the operational control of the audit organization which conducts the audit of the prime sponsor.

Beyond the basic audit goal, OIG staff will be conducting several special program and management system studies to identify problem areas which need to be addressed by management. These projects, which will complement regular audits, will be managed by the OIG's Office of Loss Analysis and Prevention. A dialogue has been initiated between ETA and OIG staff to focus in on which surveys would be most beneficial.

The OIG has been working with departmental officials to improve the process of resolution of audit findings, including follow-up collection activity. Furthermore, ETA has undertaken a comprehensive program to improve the audit resolution process in terms of timeliness and quality. This is a four-pronged effort:

A. The establishment of a priority project to bring the backlog of audit resolutions under control.

Corrective action plans have been obtained from all ETA units dealing with audit resolutions and monthly reports of the progress against these plans are being made. In some Regional Offices where a heavy backlog exists, outside contractors are being used to increase the manpower devoted to reducing this backlog. A task force of seven Federal staff has been established to work on backlogs of national program contract/grant closeout and audit resolutions and three SA contractors are assisting in this effort.

Performance standards for Federal program administrators now include their ability to effectively accomplish the corrective action plans and these standards will be applied when evaluations are made.

B. The issuance of policy and procedural guidance to grant officers to improve the process.

ETA has provided several policy issuances providing guidance to Federal officials concerning audits under the CETA reauthorization. A specific manual section on debt collection has been issued and a guide is being prepared for the use of grantees in dealing with audit reports relating to the subgrantees and contractors.

C. Comprehensive training of grants officers and other Federal staff in the handling of audit reports and debt collection.

In addition to the grants manager course which provides training in audit resolution and debt collection as a part of the curriculum, a major training effort is currently underway to train ETA operational staff.

D. A coordinative effort between OIG and ETA to create a common understanding of CETA requirements.

We are unable to verify the committee's conclusion that a poor understanding of the CETA law and regulations by OIG auditors resulted in inadequate audits with questioned costs that were not justified. To the extent this is true, it

probably refers more to contract auditors than to OIG staff auditors. While the bulk of CETA auditing is performed by contract CPA's, OIG-sponsored training courses for contract auditors were terminated several years ago. The OIG is now designing a comprehensive training and development program to include program-related sessions for full-time staff as well as for contract auditors.

ETA and OIG have also established a joint effort to increase the understanding of CETA requirements so that disagreements between program managers and the audit staff will be minimized. This has been done through ETA input into the CETA audit guide, cooperative training of staff, and consultation concerning the resolution of audit findings.

These efforts should considerably improve the ability of the Federal staff to deal with audits more effectively and reduce the instances where auditors question costs and program managers determine that a high percentage of these costs are allowable.

Collection activity is also being improved. Recently released ETA policy issuances require ETA grant officers to take aggressive debt collection action in a specific step-by-step sequence. This required sequence is a key part of a massive ETA training program for ETA grant officers and their technical support staff. Attendance at this training is mandatory. The training has already been given to over 90 percent of ETA grant officers and about 20 percent of their technical support staff. Moreover, ETA has instituted a management control system which will pinpoint backlogs, on a Region-by-Region basis, at each major stage in the audit/debt resolution process. The OIG is establishing a system to track resolution activities, including the status of implementation of audit recommendations and the amount of recoveries made. In other words, we now can determine which Department managers are aggressively collecting debts and which are not.

We agree with the report regarding the need to obtain cash repayment where the situation warrants the attendant public exposure of grantee officials who have failed to prevent misspending of grant funds. The Department will continue to preserve its right to require cash repayment when appropriate. However, the Department must also have the option of utilizing, on a case-by-case basis, repayment in terms of grant services (in lieu of cash) furnished by a grantee at its own expense (i.e., through non-federal funds). Our consultations with the DOL Solicitor, GAO, and the Department of Justice indicate that such alternative is a perfectly valid, legal method of debt recovery in light of the Claims Collection Act of 1966 and Federal regulations issued pursuant to that Act. In many instances, the Department would be unable to recover any portion of a debt

without using such an alternative means of repayment. Moreover, the punitive effects of a cash repayment are sometimes inappropriate, particularly when the grantee incurred, in good faith, disallowed costs which benefitted the program although the costs were technically unallowable. In other words, the Department recognizes the value of requiring cash repayment but also wishes to preserve its option to use other, perfectly valid repayment alternatives as the case requires. The Department's debt collection procedures, published in January 1980, establish tight standards and controls on the use of these alternative repayment methods.

Department programs, particularly CETA, place significant burdens on local officials to serve the needs of the community utilizing to the maximum extent community based organizations (CBOs) and other nonprofit organizations. Although these organizations are responsible to the prime sponsor for any unallowable costs, the lack of resources other than CETA shifts the burden to the local government. Under these circumstances forcing the local officials to return cash is often not appropriate. Therefore, each situation is carefully reviewed to determine the appropriate type of restitution.

Another OIG initiative related to the audit process is our proposal that DOL managers who are SES officials be rated on their responsiveness to the audit process. This proposal was formally implemented by the Secretary on November 14, 1979.

Recommendation No. 4.

The Department should make clear that CETA is not a revenue sharing program and that those receiving CETA monies are accountable for spending them in accordance with regulations. As part of this philosophy, the Federal Representative should be given more support and the present DOL attitude of fearing confrontations, even when it believes itself right, should be replaced by one of willingness to support experimental efforts but unwillingness to fund proposals that it believes are a waste of money.

RESPONSE. The Department recognizes that, due to the legislative history prior to the passage of CETA, many prime sponsors viewed CETA as a special revenue sharing program. Recent legislative changes which place an emphasis on oversight and program performance have changed that view. Prime sponsors now realize that they can and will be held responsible for operating effective and efficient programs in accordance with the Act and the regulations. Where this does not occur, the prime sponsors realize the Department will take a series of actions necessary and appropriate to correct the situation. These actions may include management assistance, sanctions or even terminations, if necessary, as indicated in our response to recommendation 1.a.

With regard to the Federal Representative, the basic position description is being redesigned to clarify roles and responsibilities. Emphasis is being placed on developing a set of standards for what is expected of this individual. The role will be spelled out in detail along with expectations for an individual assigned to this position.

Especially in the areas of monitoring and audit, the clarification of roles should help. For the first time the Department will clearly define what is expected of the individual Federal Representative. Training will be provided to the Federal Representatives to insure they know what they should be doing and how to do it. The Department is also in the process of developing a plan for dealing with problem prime sponsors. This plan will provide firm guidelines under which the Federal Representatives and prime sponsors will be aware of what is expected of them. This training in conjunction with the development of performance standards will provide for a system of accountability that does not presently exist. It should remove any fear of the individual not knowing the duties to be performed or the position of the Department in operational situations.

In addition, the Federal Representative will receive support from the various offices within the Region. They will be supported by staff in the program unit in terms of a place to go for program knowledge and interpretation. This support unit will also conduct in-depth compliance reviews that should provide the Federal Representative with objective assessments of specific program problem areas. As indicated in response to recommendation 1.a., the Department intends to continue to provide all necessary support to staff where programs are found to be operating ineffectively. The regular monitoring and annual assessment activities which are critical to this process places the Federal Representative in a key role. Other units within the Region that they can draw upon for support include an office that deals with investigations and equal employment opportunity and another that deals with administrative matters.

Newly created management assistance and support units in the National and Regional Offices will deal solely with the orchestration of a management assistance network. The Department has changed the nomenclature from "technical" to "management" assistance to communicate the fact that the delivery of assistance will be improved and made more meaningful. This unit will be augmented by assistance from outside agencies and organizations to overcome the limited staff. This unit should be of critical importance to the Federal Representative in identifying whether there are models for programs that could be used by another grantee and arranging for management assistance. This unit will draw upon other prime sponsors to work directly with a second prime sponsor or obtain the assistance through a university, contractor or other potential deliverers of such help.

Finally, the role of the Federal Representative has been strengthened by eliminating conflicting responsibilities. The Federal Representatives will no longer be responsible for both monitoring and technical assistance. As a result, Federal Representatives will be in a more positive posture to carry out the role as the committee's report recommends. However, to free up time to do the basic work expected of them, the paperwork burden must be reduced. To address this issue, the Department has entered into an agreement with National Archives to study the paperwork flow and how it is used in order to reduce the burden on the Federal Representative, as well as the grantee. The objective of this review is to identify specific actions which can be implemented or modified. The action is consistent with the discussion in item g. of the overview regarding the Department's efforts to rationalize the entire review and approval process.

In summary, the Department recognizes, as the report suggests, the need to balance the objectives contained in the law for Federal oversight and local control and to strengthen the management and accountability processes at both the Federal and local levels. As discussed above, many of the measures described in this paper are well underway and are beginning to have demonstrable results. Some of the other measures are still in the developmental stage but are anticipated to be put into effect fully over the next year. The Department is confident that all of these measures, which in fact together represent major revisions to the entire ETA management system, will alleviate a significant share of the shortcomings identified in the report.

APPENDIX 2.—DEPARTMENT OF LABOR RESPONSES TO QUESTIONS SUBMITTED BY MANPOWER AND HOUSING SUBCOMMITTEE

RESPONSES TO QUESTIONS FOR THE RECORD

1. Question:

(a) Please provide some examples of instances in which the Department has advised prime sponsors to carefully review the performance of subgrantees/ subcontractors who are under indictment.

Response:

Example #1

Prime Sponsors: Stanford Consortium
New Haven Consortium
Hartford Consortium
Waterbury
BOS Connecticut

Subcontractor Under Indictment:
Associated Restaurants of Connecticut (AROC)

Allegation(s): Subcontractor made payments to non-existent enrollees; administrative staff double charged their time to more than one activity and were paid for more than 100% of their time.

Results of PS Reviews: a) AROC is no longer a CETA subcontractor in Region 1; b) Indictments have resulted in out of court settlements. Some cases still pending.

Example #2

Prime Sponsor: Hartford Consortium
Subcontractor Under Indictment:
Government Services Administration, Inc. (not GSA)
Allegation: Conflict of interest by subcontractor staff
Results of PS Review: Audit conducted by DOL; subcontractor cost disallowed.

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Example #3

Prime Sponsor: Brockton Consortium
Subcontractor Under Indictment: Behavioral Sciences
Allegation: Questionable procurement practices; suspicion of kickbacks to prime sponsor; collusion between prime and contractor.

Results of PS Review: Title IIB grant approval withheld by regional office until plan revised deleting subcontract with Behavioral Sciences.

Example #4

Prime Sponsor: Palm Beach Co., Florida
Subcontractor Under Indictment: Florida Farmworkers, Inc.
Allegation(s): Fraud and abuse
Results of PS Review: Several staff indicted; two served prison terms.

Example #5

Prime Sponsor: South FLorida E&T Consortium
Subcontractor Under Indictment: Edison Little River Commission
Allegation(s): Mismanagement and possible fraud
Results of PS Review: a) Three staff members prosecuted and convicted of theft of CETA funds; b) contract with Little River Commission terminated and program now administered by City of Miami, a member of South Florida E&T Consortium.

Example #6

Prime Sponsor: Cincinnati, Ohio
Subcontractor Under Indictment: Ferguson & Associates
Allegation(s): Fraud and collusion with a prime sponsor staff member
Results of PS Review: a) Contractor charged with 20 counts of criminal fraud and PS employee charged with collusion;; b) the prime sponsor terminated its contract with Ferguson & Associates from which it recovered $47,250.

Question:

(b) Has the Department terminated any subcontracts pursuant to Section 106(e) of CETA? If so, where?

Response:

Yes. On December 19, 1979, pursuant to Section 106(e), the District of Columbia was ordered to enter into no further contracts or subgrants and to suspend all CETA financial assistance to Youth Pride, Inc., demonstration grant. At that time, the District of Columbia was also ordered not to execute a planned agreement with Youth Pride, Inc. for computer training for youth, and to cease activity with this subcontractor under its letter of understanding in consortium with the Opportunities Industrialization Center (OIC) and United Planning Organization (UPO) to provide conseling and placement for PSE participants. Finally, the District of Columbia was told not to execute any formal contracts or subgrants with Youth Pride, Inc.

Question:

(c) Has the Department made use of its power under Section 104(c)(4) of CETA to approve or disapprove any portion of prime sponsor's Annual Plan because it found that the use of funds for a particular subcontract would be grossly inefficient or fail to carry out the purpose of the Act? If so, please provide specific examples.

Response:

The District of Columbia's FY 1980 Annual Plan was approved with the stipulation that no formal contracts or subgrants would be executed with Youth Pride, Inc.

2. Question

What is the Inspector General's estimate of the percentage of CETA funds that have been audited to date? Please submit a listing of the age of DOL unresolved audits as of March 31, 1980. (This listing was included in the first two Semi-Annual Reports of the Inspector General, but was not part of the third, and most recent, Semi-Annual Report).

Response

Our current estimate is that about 24% of funds appropriated for CETA have been audited. CETA outlays were approximately $35.796 billion for fiscal years 1974 through 1979. The amount audited for the same period is approximately $8.657 billion.

Status of Aging of Unresolved Audits as of March 31, 1980

Agency/Program	March 31, 1980 Total Unresolved Reports	Dollars	1 to 6 Months Reports	Dollars	6 to 12 Months Reports	Dollars	12 to 18 Months Reports	Dollars	18 to 24 Months Reports	Dollars	24 to 30 Months Reports	Dollars	30 to 36 Months Reports	Dollars	Over 36 Months Reports	Dollars
Employment & Training Administration																
CETA Sponsors:																
State & Local Primes	223	* $114,290,681	41	$30,349,322	43	$33,156,741	36	$26,077,701	33	$11,333,623	26	$3,922,141	29	$14,309,432	27	$ 1,033,230
Native American Primes	164	* 46,463,139	16	1,949,486	103	12,488,278	37	3,661,327	23	12,136,332	23	2,212,978	27	796,393	69	2,077,345
Migrant & Seasonal Primes	138	11,095,363	26	4,915,246	9	0	2	2,582,299	7	880,268	17	2,045,482	5	70,476	30	2,114,643
Other National Program Sponsors	139	10,050,130	19	650,696	7	270,946	11	673,011	7	655,896	10	2,369,598	13	1,600,114	68	3,540,959
Pre-CETA																
Categorical Sponsors	252	43,488,447	0	0	1	13,000	0	0	0	0	0	0	3	779,484	188	42,594,964
Job Corps	21	* 3,929,041	15	2,883,600	6	1,045,373	0	0	0	0	0	0	0	0	0	0
SCSA Sponsors	34	* 40,535,915	5	1,242,133	7	17,965,331	4	3,797,147	4	4,238,541	1	39,875	3	4,868,731	10	8,398,947
Occupational Safety & Health Admin																
OSHA Sponsors	23	* 101,392	11	439,696	0	0	1	1,729	0	0	1	892	0	30,600	0	29,350
Bureau of Labor Statistics																
BLS Contractors	2	72,936	0	0	0	0	0	0	0	0	0	0	1	7,431	1	65,475
Office of Assistant Secretary for Administration & Management																
OASAM Contractors	33	2,347,186	0	0	0	0	0	0	1	1,665	11	356,437	20	1,790,083	1	31,151
Grand Total	1201	$273,304,490	137	$42,349,600	167	$64,861,914	111	$36,989,894	77	$ 30,413,670	154	$11,346,880	99	$25,382,330	445	$64,437,264

* Subsequent to the release of the March 31, 1980 Semi-Annual Report, additional information was developed which resulted in adjustments to the status of outstanding audit reports for some programs. Amounts reported at March 31, 1980 were:

	Reports	Dollars
State and Local Primes	231	117,457,408
Native American Primes	163	46,149,748
Job Corps	21	3,929,041
SCSA Sponsors	34	40,700,915
OSHA Sponsors	24	101,392

3. Question

For each of the 29 prime sponsors scheduled for their first CETA audit in fiscal year 1980, what time period and how much money will the audit cover? How does this compare with the money these primes have received since CETA's inception?

Response

Chart attached

3. Answer

gion	Prime Sponsor	Status of Audit	Years Covered by Audit	$ Amount Covered by Audit	Since Inception of CETA
	Kennebac Co., Maine	Discontinued because of poor accounting system will resume this fiscal year	1977-79	10,415,000	10,415,000
I	Northern Va. Manpower Csrt.	Discontinued (auditors sent on another audit)	1978-79	9,666,000	30,654,000
	DuPage Co. Ill.	Underway	1978	3,933,000	11,921,000
	Sangamon-Cass Csrt.	"	1979	7,943,000	15,368,000
	Shawnee Csrt	"	1974-79	18,543,000	18,543,000
	Tippercanoe Co Ind.	"	1979	1,250,000	5,296,000
	La Porte Co	"	1979	2,829,000	10,008,000
	Livonia City Mich.	"	1978-79	3,333,000	6,755,000
	Monroe	"	1979	4,068,000	15,361,000
	St. Clair	"	1978-79	18,444,000	43,972,000
	Ann Arbor City	"	1978-79	4,629,000	9,930,000
	Minnesota Rural CEP	Will start 4th quarter	1979-80	Not determined	71,787,000
	Green Co. Ohio	Underway	1978-79	4,659,000	7,583,000
	Portage Co.	"	1978	8,281,000	16,256,000
	Central Ohio Rural Csrt	"	1978	8,061,000	21,916,000
	WOW Csrt. Wisconsin	Will start 4th quarter	1979-80	Not determined	17,651,000

3. Answer

Region	Prime Sponsor	Status of Audit	Years Covered by Audit	$ Amount Covered by Audit	Since Inception of CETA
VI					
	Calcasier/Jefferson Csrt Lousiana	Not started	1978	Not determined	34,260,000
	Comanche Co. Okla.	"	1978-79	Not determined	10,844,000
	Okla. Co.	Not started	1978-79	Not determined	15,622,000
	Okla City Csrt.	"	1978-79	Not determined	52,876,000
	Tulsa Csrt	"	1978-79	Not determined	48,036,000
	West Central Texas Csrt Texas	"	1978-79	Not determined	18,042,000
	Pasadena City	"	1978-79	Not determined	6,933,000
	East Texas MA Csrt	"	1978-79	Not determined	33,891,000
	Balance of Texas	"	1978-79	Not determined	305,654,000
	Cleveland Co. Okla.	Underway	1978-79	2,100,000	7,929,000
	Capital Area Csrt. Texas	"	1978-79	4,023,000	43,114,000
	South Plains Csrt. Texas	"	1978-3/80	3,155,000	12,373,000
X	Portland City Oregon	"	6/74-9/79	68,038,000	69,293,000

SUMMARY

Total Number of Prime Sponsors with audits underway = 16

Total Number of Prime Sponsors with audit discontinued = 2

Total Number of Prime Sponsors Whose Audits Have not Yet Started = 11

Total Number of Prime Sponsors Affected by Question #3 = 29

4. Question

According to the Department's statement (May 21) on p. 12, there are currently 9 coordinated audits in the Fiscal Year 1980 Audit Work Plan. Please list these.

Response

The list is attached.

Listing of Coordinated Audits

Bergen County, N.J.:

Started May 1980; requested by House Subcommittee on Manpower and Housing; other participating Agencies include HHS and CSA; DOL is lead agency.

Jewish Vocational Center, Milwaukee, WI:

Non-profit CETA recipient; audit began October, 1979; HHS is lead agency; we supplied one auditor through CPA contract.

Total Community Action Agency, New Orleans, La:

Requested by U.S. Attorney; DOL is lead agency; other agencies include Agriculture, HHS and CSA; started April, 1980.

The Lost East Angeles Community Union, Los Angeles, Ca.:

DOL is auditing all funds of this community action agency; includes funds of HHS, HUD, CSA, Agriculture and State of California; Started April, 1980.

City of Long Beach, California:

Pilot for OMB under OMB Circular A-102, Attachment P; city auditor is auditing all Federal funds received by the City; DOL is cognizant agency for this purpose; audit started in July, 1980.

Trust Territories:

Department of Interior has agreed to audit CETA funds of three grantees when auditing Trust Territories.

United Farmworkers of America:

The Department of Labor and CSA are performing a joint audit of the United Farmworkers; CSA is lead agency; started April, 1980.

Red Lake Bond of Minnesota Chippewas:

Joint audit conducted by Department of Interior and DOL; Interior is lead agency; started May 1980.

Southeastern Tidewater Opportunity Project, Norfolk, Va.:

Negotiations in process with CSA to conduct joint audit of this CETA subrecipient.

5. Question

Please state the total amount of disallowed costs collected by the Department since CETA began.

(a) State the total amount of disallowed costs collected by the Department. Indicate for each collection the name of the prime sponsor, the method of collection and the amount collected.

(b) List those disallowed costs which have not been collected, indicating the prime sponsor and the amount.

Response

Existing ETA summary data systems do not contain the prime sponsor names associated with audits resolved or array the data as requested in this question. Therefore, the data requested is being manually prepared in ETA Regional Offices and will be transmitted to the Committee within the next thirty days. ETA is in the process of completing an automated accounts receivable system which will allow quicker response to this type of detailed request in FY 1981.

6. Question:

Please cite specific examples of where the Department withheld all or part of a prime sponsor's CETA money because of deficiences in the Annual Plan?

Response:

Example #1

Prime Sponsor: Franklin County, Pa.
Nature of Action: This prime sponsor's FY 1980 Annual Plan was funded incrementally on a quarterly basis.
Reason: Failure by the prime sponsor to implement new administrative systems required by the 1978 CETA reauthorization; financial management deficiencies; management information system problems, and numerous programmatic problems.

Example #2

Prime Sponsor: Virgin Islands
Nature of Action: FY 1980 Annual Plan approval withheld from October 1, 1979 to March 1980
Reason: Prime Sponsor unable to determine amount of funds remaining unspent in its FY 1979 program.

Example #3

Prime Sponsor: State of South Carolina
Nature of Action: Funds withheld for one quarter at beginning of FY 1980
Reason: Serious deficiencies in the Master and Annual Plans submitted by the prime sponsor including non-compliance with merit staffing provisions of the CETA regulations. These problems were resolved and the plan was approved in full on December 19, 1979.

Example #4

Prime Sponsor: GRAETC, Michigan
Nature of Action: FY 1980 Master and Annual Plans funded incrementally.

Reason: Incomplete and inconsistent application section as well as major problem areas such as allowance payments procedures, complaint systems, retirement contributions, PSE outstationing, maintenance of youth service levels, and proposed service levels for significant segments.

Example #5

Prime Sponsor: DuPage County, Illinois
Nature of Action: All FY 1980 Title VII funds withheld to date.
Reason: Lack of Private Industry Council (PIC) concurrence on the prime sponsor's plan as required by CETA regulations.

7. Question

In response to the subcommittee's report, the Department admitted that audits of the majority of subgrantees have not been subjected to quality review by the Department.

(a) Without a quality review of these audits, how can we be sure that they meet minimum federal standards? Are there alternative approaches?

(b) How much more staff does the Department need in order to adequately review the audit reports of subgrantees? How many reports has the Department received each year?

Please explain why it is taking so long to adequately staff the Inspector General's (a) Office of Audit, (b) Office of Loss Prevention.

Response

As will be described below, the OIG has attempted to ensure the quality of subgrantee audits through several means.

First, we review subgrantee audit reports performed by auditors engaged by Prime Sponsors. Although not all subgrantee audit reports have been initially reviewed when received, the majority of them have. During FY 1979, the Department performed quality control desk reviews on 84% of 9678 subgrantees reports. As of the third quarter of FY 1980, we have reviewed 90% of 7,723 reports received to that time in FY 1980.

Additionally, in order to get as complete a picture as possible of the Prime Sponsor's operations, all subgrantee audit reports are analyzed and used by auditors when audits of the Prime Sponsors are conducted. The auditors examine the reports for the same criteria used in the desk review. Thus, at some point in time, all subgrantee reports are examined.

Secondly, under the unified audit concept, the Prime Sponsor and a representative sample of subgrantee are audited. These audits are under the control of one audit organization and have common audit periods. As we initiate more unified audits, the need for separate

subgrantee audits, and the quality control requirements associated with them, will substantially decrease.

The single organization-wide audit concept as promulgated by OMB Circular A-102, Attachment P will also have an effect upon our quality control requirements. The Department will be responsible for assuring that these audits are made of those organizations where we have cognizance. It is currently unclear to what extent these organization-wide audits will satisfy the Department's requirements for audits of CETA programs. Because cognizancy has not been established yet for organizations other than state organizations, we do not know exactly what impact the OMB requirements will have on our staff requirements for quality control reviews.

Interpreting the last part of this question to refer to delays in reaching authorized ceiling levels, it should be noted that as of June 22, 1980 the Office of Audit was 88% of authorized ceiling. Attainment of full authorized strength must await relief from the current hiring freeze. With respect to the Office of Loss Analysis and Prevention, the OIG was at 16% of authorized strength on June 22. At this level, the Office of Loss Analysis and Prevention cannot perform its mission which in turn prevents the OIG from fully fulfilling its statutory mandate. The reasons for failure to fill authorized positions is largely related to the current hiring freeze. Moreover, the Office of Loss Analysis and Prevention is a new component of the OIG, requiring different skills from that of the auditor and investigator series. As such, and because of staff limitations in the personnel office, it took much longer than we had hoped before approval of position descriptions could be achieved. It is unfortunate that once the processing delays were overcome, the hiring freeze limited our ability to staff these positions.

8. Question

At the subcommittee's 1978 CETA hearings, the Department testified that it had received 18,000 subsponsor audit reports. A DOL review of 678 of these reports showed questioned costs of $6 million dollars, with only 8 percent being resolved by the prime sponsor.

(a) What actions has the Department taken to force prime sponsors to resolve the questioned costs of its subgrantees?

(b) What has the Department done to force prime sponsors to collect disallowed costs from its subgrantees? Please cite examples.

Response

ETA action on the audit resolution and debt collection activities of prime sponsors falls into three categories, as described below.

1. Immediate action on specific subgrantee audit reports. OIG sends to ETA subgrantee audit reports which, in OIG's view, involve significant problems. The ETA grant officer monitors the action of the grantee in resolving these significant subgrantees audit reports. The grant officer will take direct action against the prime sponsor--i.e., disallow the cost and attempt to collect the debt--if the prime sponsor: (a) does not resolve costs questioned on a subgrantee audit report; (b) "allows" an unallowable cost; or (c) disallows a cost but fails to collect the debt within a reasonable time.

   EXAMPLE: OIG sent to ETA's Region IX a number of significant subgrantee audit reports which related to a particular prime sponsor. The region monitored the action of the prime sponsor in resolving these subgrantee audits. The prime sponsor disallowed but failed to collect costs questioned in the subgrantee audit reports. ETA then determined that the costs were in fact unallowable and wrote an initial determination disallowing $59,000 against the prime sponsor's grant. The grantee recently signed a repayment

agreement with ETA and is in the process of repaying the debt in full. (Governor's grant, State of California).

2. Action after a Federal audit. As noted above, the grant officer will directly intervene where a prime sponsor mishandles a subgrantee audit report which IOG deems significant. Thus, direct action on individual subgrantee audits and debts occur only on an exception basis. However, the grant officer also deals with all subgrantee audit reports (significant and non-significant) through a less direct and immediate method. At least once very two years, all subgrantee audit reports are "rolled up" into a Federal audit report of the prime sponsor. That is, the Federal audit looks at the operations of the prime sponsor itself as well as the operation of subgrantees. This audit includes a review of completed subgrantee audit reports and may involve additional subgrantee auditing conducted under the Federal audit. The Federal audit will question costs where the prime sponsor, in processing subgrantee audit reports: (a) took no action to resolve costs questioned in the subgrantee audit report; (b) "allowed" unallowable costs; or (c) failed to collect costs disallowed under the subgrantee audit. In resolving the Federal audit, the ETA grant officer must allow or disallow all questioned costs, including those resulting from the three situations noted above, within 120 days of receipt of the Federal audit report. ETA will take aggressive debt collection action if no timely appeal is made or if the Administrative Law Judge (ALJ) upholds the disallowance.

EXAMPLE: A final Federal audit report showed that a Region IX prime sponsor did not take action on several subgrantee audit reports totalling $66,825 in questioned costs. OIG did not consider the subgrantee audit reports to be significant in themselves, so OIG did not send copies of the individual subgrantee audit reports to ETA for action. However, OIG subsequently conducted an audit of the prime sponsor's total grant, including subgrantee operations, as reflected in subgrantee audit reports covering the period audited. In resolving this Federal audit, the

ETA grant officer determined that the $66,825 was in fact unallowable. An initial determination disallowing the costs and demanding repayment was sent to the grantee in August 1980. ETA now will attempt to meet with the prime sponsor and informally resolve the problem. If that fails, a final determination will be sent to the grantee disallowing the costs, demanding repayment, and offering opportunity for an hearing before an ALJ. ETA will take further collection action if no timely appeal is made or if the ALJ upholds the disallowance. (Imperial County, California).

3. Action on systematic failure of prime sponsor in resolving subgrantee audits and debts. Beside taking action on individual questioned costs and debts resulting from the prime sponsor's handling of subgrantee audits, the grant officer will take another kind of action when the prime sponsor's failure to resolve subgrantee audits and debts is serious and sytematic. First, the grant officer will require corrective action. Where no corrective action is taken within the prescribed time, the grant officer will seek to impose sanctions and remedies commensurate with the deficiency. Sanctions and remedies may include special reporting requirements, month-to-month funding, cancellation of advance financing, disapproval or conditional approval of the new annual plan, partial or complete termination of the grant, and reallocation of funds to a new prime sponsor. Systematic deficiencies may be exposed by any of the following: (a) routine monitoring by the Federal Representative; (b) formal annual assessment; or (c) administrative findings in Federal audit reports.

   EXAMPLE: A draft Federal audit report contained an administrative finding stating that the prime sponsor had not audited its subgrants. Between 10/1/75 and 9/30/78 (the end of the period covered by the audit) the prime sponsor's subgrantees had reported costs totalling $20.6 million, which had not been audited. Because of the urgency of this problem, OIG contacted ETA even before the draft audit report was released. ETA convinced the prime sponsor of the importance of immediate subgrantee audits. The prime sponsor developed an acceptable corrective action plan, and subgrantee audits are now in progress. (Inland Manpower Association, a California consortium).

ETA policy regarding subgrantee audits and administrative findings is contained in Field Memorandum 80-80, dated January 1980. The procedures and policies described above have been a key part of a massive ETA training program of ETA grant officers, their support staff, and prime sponsors. The only part of this program which is not complete is prime sponsor training, which began in June 1980 and will be complete by March 1981.

10. Question

As of September 30, 1979, there were approximately 1500 Title III contracts and grants funded by the Office of National Programs which had terminated but had not yet been closed out by the Department. Approximately one-third of these contracts of grants had outstanding audits, representing over 64 million dollars in unresolved questioned costs. Two-thirds of these grants appear never to have been audited.

(b) Why has only one-third of these contracts been audited?

Response*

As a result of insufficient contract funds and limited staff to assist in the award and monitoring of audit contracts, many Office of National Programs (ONP) and Office of Policy Evaluation and Research (OPER) terminated contracts and grants have not yet been audited, though some of these will be audited in the future.

In May, 1980 five task order contracts were signed which are available, in part, for these audits. We anticipate performing approximately 100 audits of ONP and OPER funded entities with these five audit contracts at an estimated cost of $2,000,000. The audits will examine all DOL grants or contracts at the selected entities.

9. Question

What prevents CETA auditors from considering the issue of substitution?

Response

In the course of the first few audits of CETA Prime Sponsors in 1975, the DOL's Directorate of Audit and Investigations recognized that its limited resources did not permit the in-depth investigations of the entire financial status of a grantee as part of every CETA audit. This type of review is necessary to determine and prove a Maintenance of Effort violaiton. It was, therefore, decided not to look into maintenance of effort during the normal CETA Prime Sponsor audits.

The OIG Office of Audit has continued this policy. Upon special request by ETA, we are prepared to review this type of problem, subject to the availability of resources.

* Answers to (a) (c) (d) (e) (f) (g) and (h) follow.

10. Question

(a) Why has the Department failed to close out 1500 contracts and grants?

(c) Why has the Department failed to resolve the 64 million dollars of questioned costs found in audits?

(d) What progress has been made by the task force established in March 1980 to close out these contracts and resolve these audits?

Response

The backlog of closeouts and unresolved audits developed in 1977 and 1978 as a result of ETA's directing its resources more toward the implementation and operation of new and expanding CETA programs. Staff resource problems were also a contributing factor to these backlogs. However, ETA has moved to address this problem in a significant manner through the creation of a task force dedicated solely to eliminating both the National Office audit and closeout problems.

The progress of the task force, since its creation in January 1980, has been excellent. As of the end of July, the task force has closed 506 contracts and issued final determinations on 1974 audit reports.

10. Question

(e) What is the Department's basis for closing out a contract or grant where no audit has been performed? Will the Department accept the reported costs of the contractor even though these costs will not be verified?

Response

The maintenance of integrity in any financial reporting system cannot be based on 100 percent audit or oversight but must necessarily rely on a system of review that is sufficiently active to instill in contractors and grantees a perception that an audit could occur at any given time or for any given grant or contract period. Such a program combined with appropriate penalties for violations of accepted practice will produce a situation where the confidence level placed in reported, but unaudited, costs in high.

ETA has sufficient confidence in its financial reporting and review system to accept costs for closeout since the costs were reported in an environment where an audit could have occurred.

10. Question

(f) Is the Department currently auditing Title III prime sponsors on a timely basis and following up on present audits?

Response

As noted in the response to the question 10b, an updated audit plan for ONP and OPER is being developed currently and audits will be initiated shortly. Many of the audits will not be timely. Some audits will examine contracts that ended in 1978 or 1979, most where the amounts were extremely large or there are suspected problems. Responsibility for following up on present audits resides with each program office.

Question

(g) Which CPA firms has the Department contracted with to audit these grants and contracts?

Response

In May, 1980 five task order contracts were signed which are available, in part, for obtaining audits of ONP and OPER contracts and grants. The five CPA firms which are available to perform these audits are:

1. Williams, Young & Herbert
2. Morris Davis & Co.
3. Metcalf, Frix & Co.
4. Vasquez, Quezada & Navarro
5. John L. O'Brien & Co.

Question

(h) Please submit to the subcommittee a complete list of all recipients who receive monies from the discretionary accounts under the CETA law.

Response

The recipients of CETA discretionary funds (Title III) are identified in the attached lists.

67-679 O—80——16

U.S. DEPARTMENT OF LABOR
EMPLOYMENT AND TRAINING ADMINISTRATION
NATIONAL OFFICE ACTIVE CONTRACT LIST
AS OF 07/21/80

O.F CONT

CONTRACT NUMBER	NAME
99-0-402-92-22	INT UNION OPERATG ENGNERS
99-0-1208-42-18	CHEMUNG COUNTY
99-0-1383-42-20	GRO MEANEY CTR LAB STUDES
99-0-024-01-15	LATIN AMER TASK FORCE
99-0-090-01-17	PREP RECRUIT EMPLOY PROG
99-0-093-42-16	URBENTHUMB INC
99-0-176-42-29	NAT CNCL OF YOUNG ISRAEL
99-0-203-01-11	COMNTY AFFIRM ACTION PROG
99-0-277-92-25	INTL MASONRY APPR TRUST
99-0-289-01-5	NEW AMERICAN OPPTY FOUND
99-0-344-92-17	TEAMSTER JT COUNCIL 40 53
99-0-367-01-9	VALLEY ARE CONST OPP PROG
99-0-454-42-2	NATL ALLIANCE BUSINESS
99-0-521-92-21	LABORERS INTNL UNION N A
99-0-622-42-16	ASSOC IND ELECT CONTRACTS
99-0-793-92-24	STATE NEW JERSEY DEPT EDU
99-0-1245-42-22	NATIONAL URBAN COALITION
99-0-1410-42-19	AMERICAN ASSN SMALL LEGIS
99-0-1545-42-17	MAINSTREAM INC
99-0-1650-42-23	UNITED NEGRO COLLEGE FUND
99-0-1941-42-25	ELECTRONIC IND FOUNDATION
99-0-2077-92-10	APPAREL JOB TRNG RES COMP
99-0-844-42-11	AETNA CASUALTY SURVEY HUMD
99-0-944-01-1	UNIV TEXAS CTR HUMAN RES
99-0-1198-42-1	CENTER FOR COMMUNITY CHGE
99-0-1234-42-08	PUGET SOUND PRINT TRADES
99-0-1423-92-19	JOINT JOB TRNG RESEARCH

CONTRACT NUMBER	NAME
99-0-2352-01-19	RECRUIT TRNG PROGRAM R IP
99-0-090-01-9	PREP RECRUIT EMPLOY PROG
99-0-091-92-06	AFL CIO APPALACHN COUNCIL
99-0-092-92-10	INT UNION UNITED AUTO WKR
99-0-092-01-7	INT UNION AUTO AERO AGRI
99-0-112-01-5	NEGRO TRADE UNION LEAD CL
99-0-162-01-3	NAT URBAN LEAGUE INC
99-0-177-01-06	DELAWARE PLAN INC
99-0-179-42-07	HEALTH EDUCATN RESOURCES
99-0-204-42-10	HUMAN RESOURCES DEVELOP
99-0-278-92-17	NAT ASSN HOMEBUILDERS
99-0-329-92-18	NAT JNT PAINT DEC DRYWALL
99-0-353-92-14	UNITED BRTH CARP JOINERS
99-0-367-92-2	INT UNION ELECT RADIO MCH
99-0-369-92-1	NAT IRONWORKERS TRNG PROG
99-0-369-92-1	NAT MACHINE TOOL BLDRS
99-0-369-92-20	UPER PLAST CEMENT MASONS
99-0-381-01-8	INTNL ASSN OF FIREFIGHTER
99-0-398-92-11	NAT TUNL DEL PREC MACH
99-0-434-42-02	NATIONAL ALLIANCE BUSINES
99-0-475-92-9	GRAPHIC ARTS INTNL UNION
99-0-586-92-9	SOUTHERN RAILWAY SYSTEM
99-0-1024-92-21	FLORN APPALCHN HOUSING
99-0-1927-01-1	STATE OF NEW JERSEY DOL
99-0-1990-92-13	GIANT STEP INC
99-0-2449-42-5	AFL CIO GRT LAKES REG CNL
99-0-2492-92-9	INT UNION TILE MARBLE PLN

CONTRACT NUMBER	NAME
99-8-162-00-03	NATL URBAN LEAGUE VETS
99-8-262-78-03	INT UNION ELEC RADIO MACH
99-0-917-78-2	AMERICAN CULINARY FEDRTN
99-8-1409-42-25	SOCIV ADVAN MEDICAL SYST
99-9-100-43-163	BRO RAIL AIR STEAM BRAC
99-9-142-92-22	O I C OF AMERICA INC CBO
J-9-M-0-0150	BUEING COMPUTER SERV UNL
99-9-654-42-4	NATL ALLIANCE BISINESS
99-9-797-00-74	SMALL BUSINESS ADMINSTRN
99-9-898-78-5	INTNL ASSN MACH AERO WKRS
99-9-915-70-8	NATL CULINARY APPR PROG
99-9-1305-00-66	SMALL BUSINESS ADMINSTRN
99-9-1545-42-17	MAINSTREAM INC
99-9-1588-42-28	NAT COUNCIL LA RAZA CBO
99-9-1618-42-26	NAT URBAN INDIAN COUN CBO
99-9-1687-42-27	UPPTY IND CENTERS DEC CBO
99-9-1920-00-3	NAT COUNCIL NEGRO WOMEN
99-9-1926-40-25	SMALL BUSINESS ADMINISTN
99-9-2055-00-16	NAT BOARD Y W C A WOM SUR
99-9-2116-78-4	INSULATN IND APPR TRNG
99-9-2406-40-21	LABOR INST HUMAN ENRICH
99-9-2211-76-0	A P S C M E CAREER DEVELP

CONTRACT NUMBER	NAME
99-9-2178-36201	PATRICIA HC CORP P URD
99-0-9500-000	TARGET JOBS TAX CRED UASA
91-0-092-78-4	PROG PROM DEV REG APP UAW
99-0-162-01-3	NAT URBAN LEAGUE INC CBO
99-0-166-42-04	JOBS FOR PROGRESS N B A
99-0-208-92-1	NAT ASSN RETARDED CITIZENS
99-0-264-42-10	HUMAN RESOURCES DEV INST
99-0-301-78-06	INTNL ASSN FIREFIGHTERS
99-0-342-92-22	NAT ASSN REHAB FACILITIES
99-0-402-78-7	INTL UNION OPERNG ENGNRS
99-0-483-41-7	NATL COUNCIL ON AGING
99-0-493-01-4	HARK BATTLE ASSOC INC
99-0-533-00-78	CAPITOL FILM LABS P O
99-0-570-00-26	SMALL BUS ADMINISTRATION
99-0-572-06-51	SMITHSONIAN INSTITUTION
99-0-578-00-11	FEDERAL LOBBYING APPRNT
99-0-623-00-20	U S CONFERENCE OF MAYORS
99-0-625-00-14	NATL GOVERNORS ASSN RESCH
99-0-762-00-21	AMERICAN MGT ASSOC INC
99-0-766-42-06	EPILEPSY FOUNDATN AMERICA
99-0-794-42-13	M D C INC
99-0-855-00-05	HENRY COMPANY DESIGNS P O

NAT EMPH

CONTRACT NUMBER	NAME
99-0-492-07-3	DEPT H U D INTER AGENCY
99-0-893-78-01	NAT AUTOMOBILE DEALERS ASN
SF 280-0902-1-J	BLS BEA ARL WAGE INDICES
99-0-985-78-02	AUTOMOTIVE SERVICE COUNCIL
99-0-1108-08-67	BERT W SMITH ASSOCIATES
99-0-1119-12-1	FLOWER OF THE DRAGON INC
99-0-1135-78-3	INTNL BRO POLICE OFFICERS
99-0-1167-08-92	MUVILLAR PURCH ORDER
99-0-1175-000	CETA MGT INFO SYSTEM OASA
99-0-1175-08-00	INVITATNL INAM USES P UKD
99-0-1197-42-6	GOODWILL INDUSTRIES INC
99-0-1210-42-09	PEDMN SOUTHN COUPS
99-0-1263-08-08	NATL URBAN COALITION P O
99-0-1272-06-40	NAT ASSN COUNTIES RESCH
99-0-1322-08-48	AMERICAN INST MNH HES DU
99-0-1326-08-38	NAT WOMENS EMPLOY EDUCATN
99-0-1535-78-5	SERVICE EMPLOY INT UNION
99-0-1814-07-13	PROJECT UPLIFT H E W 1063
99-0-1854-92-3	NATL PUERTO RICAN FORUM
99-0-1867-08-78	CENTER SYS PROG DEV S O A
99-0-1921-08-34	ONE AMERICA INC SBA
0-9-A-1952	SYNERGETICS CORPN P O

CONTRACT NUMBER	NAME
99-0-1985-42-12	COALITION UNITD COMM ACTN
99-0-2164-12-6	CARNELLA LA SPADA CONSULT
99-0-2.08-07-10	NATL ARCHIVES RECORD SERV
99-0-2298-08-47	DR JEAN MARIE CUL P ORD
99-0-2319-08-31	DIST 1199 NAT UNION HOSP
99-0-2403-06-01	NATIONAL ARTS CONSORTIUM
99-0-2411-08-3	NATL NEWSPAPER ASSOC
99-0-2430-08-13	NAT ASSN WOMEN BUS OWNERS
99-0-2436-08-14	DISPLACED HOMEMAKERS NET
99-0-2462-42-3	NAT FEDN OF THE BLIND
99-0-2446-12-3	UNIV MINNESOTA VETERANS
99-0-2447-12-4	VETS UPGRADE CTR N YORK
99-0-2451-06-22	STEWART BENJAMN BROWN
99-0-2452-06-23	LUCAS TUCKER CO
99-0-2453-08-24	FRANK J LEAL ASSOC INC
99-0-2454-08-25	COMMUNICASIA PUR ORDER
99-0-2462-08-28	GRACE VAUGHN AND ASSOC
99-0-2466-07-2	OFFICE PERSNL MGT 1083
99-0-2467-08-29	GILBERT CARLENAS UN MICH
99-0-2475-06-33	SOLAR AMERICA INC
99-0-2497-12-5	URBAN SERVICES AGENCY VES
99-0-2505-08-41	DEBORAH HOLMES P ORDER

CONTRACT NUMBER	NAME
99-0-2506-08-42	ERIN MORITA PUB ORDER
99-0-2508-08-43	U S CONFERENCE OF MAYORS
99-0-2510-08-46	LORNA SARASAKO P ORDER
99-0-2518-08-49	NATIONAL BUSINESS LEAGUE
99-0-2523-12-7	SEATTLE DEPT HUMAN RES
99-0-2551-08-54	SOCIETY CABLE TELEVISN PU
99-0-2552-08-85	NATIONAL RURAL CENTER
99-0-2553-76-08	COMMUNICATN WORKRS AMERICA
99-0-2554-08-56	UAE AMERICA INC
99-0-2567-08-57	NAT ASSN BLACK MANUF P O
99-0-2569-08-58	DART KENNEDY P ORDER
99-0-2570-08-60	NAT ASSN HOTEL RES OWNERS
99-0-2580-08-61	DEPT PROFESSIONAL EMPLOYS
99-0-2583-12-8	CITY OF DETROIT NEIGH SER
99-0-2587-08-62	LULA SCURRY HOMENS AUX
99-0-2590-08-63	MARY ARIMOTO P ORDER
99-0-2591-12-9	CITY OF OAKLAND VETS OUT
99-0-2592-08-64	LOUCHE MEDIA ASSOC P ORD
99-0-2594-08-56	JUDY LIEBOVIT P ORDER
99-0-2619-08-71	J R P ASSOCIATES INC P O
99-0-2620-08-72	PATRICK JOHN VINCENT P ORD
99-0-2621-08-73	WILLIAM LYONS U TEXAS P O

CONTRACT NUMBER	NAME
99-0-2644-08-74	CITY OF ATLANTA
99-0-2649-08-76	GRAHAM ASSOCIATES INC
99-0-2655-08-77	AUTOMATED BUSINESS SER ADA
99-0-2656-07-13	U S DEPT AGRICULTURE
99-0-2658-08-78	SHERATON INN WASHINGTN P O
99-0-2659-08-79	ASSOC MINORITY CONTRACTRS
99-0-2660-08-80	RICHARD GARCIA P ORDER
99-0-2661-08-81	A L NELSON ASSOC D B A
99-0-2667-08-83	GREYHOUND GROUP TRAVL P O
99-0-2669-08-84	DIMENSION COMMUNICA P O
99-0-2670-08-87	VIDEO COMMUNICNS GRP P O
99-0-2671-08-89	ANTAN RESEARCH
99-0-2682-08-91	COLOR FILM PURCHASE ORD
99-0-2683-08-93	NATL URBN DEV CON TITLE I
99-0-2693-13-11	OLINDLO VETERANS COMM P O
99-0-2742-08-96	DAVID PAIS PURCHASE ORD
IPA-5500	VALDERAMA MELANIE I P A

CONTRACT LIST -- OFFICE OF POLICY, EVALUATION AND RESEARCH, EMPLOYMENT AND TRAINING ADMINISTRATION -- NATIONAL EMPHASIS (DISCRETIONARY ACCOUNT) CONTRACTS

CONTRACT NUMBER	CONTRACTOR
20-34-79-24	Mathematica Policy Research
21-37-77-38	MDC, Inc.
71-11-80-01	American Consortium for International Public Administration
20-24-79-23	Westat, Inc.
71-11-79-02	National Institute of Public Management
23-24-76-07	Westat, Inc.
21-11-76-09	Brookings Institution
21-25-78-31	Harvard University
21-11-80-07	National Council for Urban Economic Development
21-06-80-08	Ohlone College
73-11-80-01	National Governors Association
20-37-80-07	MDC, Inc.
20-51-79-15	McKnight Associates
21-36-79-03	Columbia University
20-25-77-15	ABT Associates
A-23-11-75-01	Bureau of the Census
31-22-78-04	Southern University A&M
31-51-78-10	Virginia Commonwealth University
31-48-78-07	University of Texas at Austin
24-39-79-01	Ohio State University Research Foundation
73-11-80-02	National Institute for Public Management

73-25-80-03	Office of the Mayor--Lawrence, Mass.
20-37-80-13	MDC, Inc.
31-13-78-09	Clark College
31-04-78-05	University of Arizona
31-36-78-11	Medgar Evers College
36-45-80-10	Benedict College
36-13-80-12	Atlanta University
36-13-80-13	Atlanta University
36-28-80-11	Mississippi Industrial College
36-22-80-09	Southern University A&M
36-13-80-05	Clark College
73-11-79-02	National Association of Counties Research Foundation
31-48-78-08	University of Texas at San Antonio
20-11-80-18	The Omega Group
20-08-80-24	Colorado Coalition for Full Employment
31-21-78-12	Kentucky State University
36-24-80-14	Morgan State University
20-51-79-15	McKnight Associates
21-36-80-24	Work in America Institute, Inc.
A-20-11-80-32	Economic Development Administration, U.S. Department of Commerce
20-15-80-33	Construction Apprenticeship Program
36-11-80-15	Howard University
36-24-80-16	Morgan State University

11. Question

What percentage of contracts or grants administered by the Office of National Programs are sole source?

Response

Of 434 contracts and grants administered by the Office of National Programs, 44 (or 10 percent) were sole source actions. The sole source actions were in the following program categories: Native American Program (5), Migrant and Seasonal Farmworker Program (1), Older Workers Program (1), and National Training Programs (37).

QUESTION: In what areas have PSE Waivers been granted?

ANSWER: PSE Waivers have been granted to the following prime sponsor areas:

Region I

Connecticut

1. Hartford
2. Balance of State
3. Bridgeport
4. Waterbury

Massachusetts

1. Balance of State
2. Worcester
3. Cambridge

Rhode Island

1. City of Providence
2. Balance of State

Region II

New Jersey

1. Union County
2. Middlesex County
3. Passaic County
4. Union City
5. Newark
6. Elizabeth
7. Jersey City
8. Bergen County
9. Ocean County
10. Hudson County
11. Essex County
12. Camden County
13. Camden City
14. City of Paterson

New York

1. New York City
2. Suffolk County
3. Rensselaer County
4. Nassau County
5. Erie County
6. Onondaga County
7. Hempstead
8. Balance of State
9. Oneida
10. Buffalo
11. Syracuse

Puerto Rico

1. Balance of State
2. Caguas
3. San Juan
4. Mayaquez

Region III

Maryland

1. Western Maryland
2. Baltimore City
3. Baltimore County

Pennsylvania

1. Scranton
2. Westmoreland County
3. Balance of State
4. Fayette County
5. Lehigh Valley
6. Erie
7. Tri-County
8. Delaware County
9. Washington County
10. Centre County
11. Northumberland County
12. Allegheny County
13. City of Philadelphia
14. City of Pittsburgh
15. Montgomery County
16. Alleghenies PDE

17. Lackawanna County
18. Schuylkill-Carbon Counties
19. Luzerne County

Virginia

1. Peninsula
2. Stama

West Virginia

1. Balance of State

D.C.

1. Washington

Region IV

Alabama

1. Balance of State
2. Mobile
3. Huntsville/Madison

Florida

1. Heartland
2. Broward County
3. Alachua County
4. Tampa
5. Seminole
6. Balance of State
7. South Florida
8. Hillsborough
9. Pasco County
10. Pinellas/St. Petersburg

Kentucky

1. Balance of State
2. Eastern Kentucky CEP
3. Louisville/Jefferson

Mississippi

1. Balance of State

North Carolina

1. Alamance

Tennessee

1. Memphis/Shelby County
2. Nashville/Davidson County
3. Balance of State

Region V

Illinois

1. Balance of State
2. Chicago
3. St. Clair County
4. Rockford
5. Macon County
6. Madison

Indiana

1. Indianapolis
2. Southwestern Indiana Manpower Consortium
3. Vigo County
4. Gary

Michigan

1. Balance of State
2. Detroit
3. Lansing
4. Livonia
5. Region II E&T Jackson
6. Macomb
7. Saginaw
8. Washtenaw County
9. Bay County
10. Calhoun County
11. Dearborn
12. Jackson
13. Muskegon

14. Warren
15. GLSF Consortium
16. North East Michigan Consortium
17. Monroe County
18. Oakland County
19. Wayne County

Minnesota

1. Balance of State

Ohio

1. Scioto County
2. Cleveland
3. Canton/Starke/Wayne
4. Toledo
5. Akron
6. Lake County
7. Lorain
8. Central

Wisconsin

1. Balance of State
2. Tri-County, Racine, Wisconsin E&T Consortium
3. Northwest Wis./CEP

Region VI

Arkansas

1. Central Arkansas
2. Balance of State

Louisiana

1. Rapides Parrish
2. Ouachita
3. New Orleans
4. Balance of State

Oklahoma

1. Balance of State

Texas

1. Gulf Coast
2. South East Texas Consortium
3. Alamo Consortium
4. Texarkana Consortium
5. Galveston
6. El Paso
7. Coastal Bend Consortium

Region VII

Kansas

1. Kansas City/Wyandotte

Missouri

1. Balance of State
2. Kansas City
3. Jefferson Franklin

Nebraska

1. Omaha

Region IX

California

1. Fresno
2. Tulare County
3. Imperial County
4. Balance of State
5. Monterey
6. Stanislaus
7. Stockton/San Joaquin
8. City of Los Angeles
9. San Francisco
10. Sunnyvale
11. Sacramento
12. Santa Clara
13. Oakland
14. Inland Manpower Association
15. Ventura
16. Long Beach
17. County of Los Angeles
18. Alameda County

Hawaii

1. Honolulu

Region X

Alaska

1. Anchorage

Washington

1. Balance of State
2. King-Snohomish Manpower Consortium

Other

1. Territory of American Samoa

QUESTION: On what basis were waivers granted?

ANSWER: Temporary waivers were granted to some prime sponsors for participants hired prior to October 1, 1978, if the prime sponsor demonstrated that it had faced unusually severe hardships in its efforts to transition participants.

Temporary waivers were also granted to some prime sponsors for participants hired on or after October , 1978, if, in addition to meeting the unusually severe hardship criteria, the prime sponsor or unit of local government within its jurisdiction, had an unemployment rate of at least seven percent.

Prime sponsors were required to submit a separate request for each quarter they wished to seek a waiver. Each waiver request contained:

(1) A description of the unusually severe hardships experienced by the prime sponsor in transitioning PSE participants;

(2) Local hiring patterns in the last 12 months of the employing and worksite agencies where PSE participants are working;

(3) A description of transition efforts which have already been undertaken;

(4) A description of the immediate efforts to be made to transition as many participants as possible prior to the beginning of the waiver period;

(5) A transition plan which specifies by quarter the number of groups of participants who will leave the PSE program through transition, transfer, or termination.

Based on the above documentation, as well as considerations such as firm hiring commitments, budget cycle, specific training plans, and intensive job search and job development efforts, the Department granted approvals either in full, in part, or with conditions to prime sponsors. Partial approvals occurred

in instances where the prime sponsor's transition plan did not appear to justify the various extension lengths requested. The Department granted conditional approvals generally in instances where the plan provided inadequate or non-specific documentation but warranted further consideration due to economic conditions or other factors. For example, some requests were approved conditioned on the prime sponsor's submission of additional information to more adequately justify the requested extension, such as evidence of firm hiring commitments, or specific training plans for participants.

12. Question:

Approximately how many modifications to Annual Plan are received by the Department each year? Approximately how many modifications are approved? Disapproved?

Response:

ETA receives approximately 11,100 modification requests from prime sponsors each fiscal year. Upon initial review, nearly all of these requests are returned to prime sponsors for some sort of revision. While minor technical errors are readily corrected, approximately 20-25 percent of all modifications submitted to ETA for approval are found to have substantive problems (e.g. unacceptably low planned placement rates, weak program activity descriptions, etc.). Most of these (approximately 97%) are eventually approved following negotiations between regional office staff and prime sponsors to resolve problems and incorporate necessary revisions to the modification. In other cases, prime sponsors discuss informally proposed modifications to their grant with ETA regional officials prior to developing and to submitting a formal request. Many such proposals are rejected outright, but there is no disapproval modification since no formal proposal was submitted.

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